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MALAYSIA
Survey of economy and society
Section III

World News

Clashes in Croatia end hopes of lasting truce

Fighting erupted again yesterday in the eastern Croatian town of Vukovar only hours after a ceasefire deal had been struck between the Yugoslav federal army and the republic's breakaway government.

The collapse of the truce reinforced the belief among western diplomats that any ceasefire or European Community mediation is now unenforceable. Page 14; Serbian media, Page 4; Editorial Comment, Page 12

Japan's bankers warned
Japanese police formally warned the country's bankers and securities workers to stop dealing with gangsters. Page 14; Aircraft company arrests, Page 4

Libya's 'desert river'
Libya celebrated completion of its "great man-made river". The vast pipeline, which took 10 years and $14bn to build, carries fresh water 1,200 miles across the Sahara to the Libyan coast. Page 5

African debt plea
UN secretary-general Javier Pérez de Cuéllar suggested wealthy nations cancel their official debt to African countries before the continent faced a crisis of "tragic proportions". Page 5

Kurdish quarrel
Iraqi Kurdish leader Jalal Talabani accused Kurdish separatists in Turkey of maintaining secret ties with President Saddam Hussein of Iraq for the last three years.

Pilgrims killed
Fifty three people died in eastern Turkey when a tourist bus crashed 60 ft into a ravine after failing to round a bend. Most of those killed were Lebanese Moslem pilgrims.

NY subway deaths
A New York subway train jumped the tracks, killing at least six people and injuring more than 200. Officials said the driver was being tested for drugs. Page 4

Greek bank strike
All Greek state and private banks are expected to be affected by a 24-hour strike called for today by Greek central bank employees.

Kashmir firing continues
India and Pakistan reported a third day's heavy firing between their troops in the disputed Kashmir region.

Iranian charged
A French judge charged an Iranian with the murder of ex-Iranian premier Shapour Bakhtiar earlier this month. Ali Vakili Rad was extradited from Switzerland.

Dutch PM's threat
Dutch prime minister Ruud Lubbers said he would quit if next year's private-sector wage rises exceeded a 3 per cent guideline.

Pakistan crackdown
Pakistani police arrested over 30 activists of the opposition Pakistan People's party led by Benazir Bhutto. The crackdown followed the murder of a policeman.

Bomb wrecks town
The IRA set off a 1,000lb bomb in the centre of a Northern Ireland town. The blast, heard over 20 miles away, injured a British soldier, wrecked hundreds of buildings and blew out almost all the town's windows.

Hospital files seized
Investigators seized files from East Germany's showpiece Charite clinic in Berlin as they began to probe claims that doctors removed organs from terminally ill patients. The hospital admitted irregularities but denied organs were removed from living patients.

Business Summary

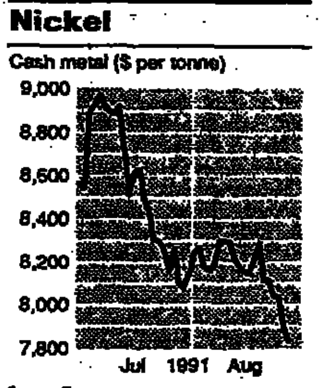
US growth figures dent hopes of recovery

Hopes that an economic recovery had begun in the US in the spring were dampened by the release of the latest growth figures.

Revised figures from the Commerce Department showed the economy had contracted at an annual rate of 0.1 per cent in the second quarter of the year, reversing last month's estimate which had put growth at an annual rate of 0.4 per cent in the quarter. Page 14; Currencies, Page 30; World stocks, Page 34

NICKEL prices came under further pressure on the London Metal Exchange after Tuesday's fall through the $8,000 a tonne level. The cash nickel price fell $57.58 to a fresh 1991

Nickel



Source: Datastream

low of $7,835 a tonne. Continued concern over high levels of Soviet supplies contributed to the bearish mood. Norwegian plant to cut nickel output, Page 22

VOLVO, Swedish vehicle group, reported a 68 per cent fall in pre-tax profits to SKr658m ($103.8m) for the first half of 1991. Page 15

UNITED Press International, struggling US news agency, filed for Chapter 11 bankruptcy protection against its creditors for the second time in seven years. UPI has about $65m in liabilities and about $22m in assets. Page 17

BRITISH Airways and a group of German banks face a serious delay in their attempt to set up a successor airline to BA's internal German service. Page 4

ASEA BROWN Boveri, Europe's biggest electrical engineering group, plans to cut its workforce by at least 6,000 in the second half of this financial year to maintain a cost-cutting drive which helped it lift pre-tax profits for the first six months of 1991 by 6 per cent to $520m. Page 16

NATIONAL Semiconductor, one of Silicon Valley's leading microchip makers, will take a first-quarter charge of $149.3m to cover the costs of restructuring its manufacturing plants. Page 17

SWEDISH Federation of Industries predicted that the country's industrial production will not recover to the peak level of 1989 until the end of the century. Page 4

SALOMON Brothers: Moody's Investors Service, New York ratings agency, lowered its ratings of the US securities house's debt following the firm's involvement in the Treasury auction-rigging scandal. Page 18

RENAULT, French state-owned automotive group, suffered a 65.4 per cent fall in pre-tax profits in the first half of the year to FFr962m ($161m). Page 15

LUFTHANSA, German national airline, reported a pre-tax loss of DM331m ($189m) for the first half of 1991 compared with a loss of DM3m in the same period of last year. Page 16

CATHAY Pacific Airways, Hong Kong international air carrier controlled by Swire Pacific, announced a 21.7 per cent fall in interim profits to HK$1.1bn ($141.8m). Page 17

Gorbachev appoints team of strategists to reverse decline and calm republics

Soviets plan rescue package

By Leyla Boulton in Moscow

THE Soviet Union yesterday moved closer towards a co-ordinated strategy to rescue the economy and to calm fears in the republics over possible Russian hegemony.

The four-man committee, set up to run the Soviet economy and put it on course for market reform, was yesterday expanded to include representatives of most of the 15 republics. This was an attempt to prevent what one committee member described as economic catastrophe.

Mr Grigory Yavlinsky, the radical economist, was put in charge of crafting an overall economic reform strategy. Mr Arkady Volsky, the head of a Soviet employers' confederation, will be responsible for Soviet industry, transport, and communications after the sacking of the entire Soviet cabinet.

The committee's chairman, Mr Ivan Silayev, the Russian prime minister, is to oversee defence, security, the media, and the Finance Ministry. The fourth man, Mr Yuri Luzhkov, head of Moscow City Council's executive body, is to reorganise the country's agro-industrial sector and secure food for city dwellers this winter.

Mr Volsky told a news conference yesterday that 80m-85m tonnes of grain were needed to feed the big cities but that the state had so far procured only 24m-25m tonnes.

He said President Mikhail Gorbachev would soon sign a decree to provide better incentives for peasants to part with grain stocks which they were now holding back.

Mr Gorbachev also appointed Mr Boris Pankin, 60, as the new Soviet foreign minister. Mr Pankin, currently ambassador to Czechoslovakia, is a liberal who was well regarded during his previous ambassadorship in Sweden. He is a former editor of Komsomolskaya Pravda, the Communist youth newspaper.

A Soviet Foreign Ministry spokesman said Mr Pankin was the only Soviet ambassador who did not follow the orders issued by hard-line Communists who tried to topple Mr Gorbachev last week.

In the meantime, Mr Gorbachev continued a relentless purge of officials involved in last week's coup when he sacked the governing body of the KGB. As well as launching an investigation into the KGB's role in the failed putsch, he also began to dismantle the once-monolithic security agency, by transferring its border guard divisions to the regular army.

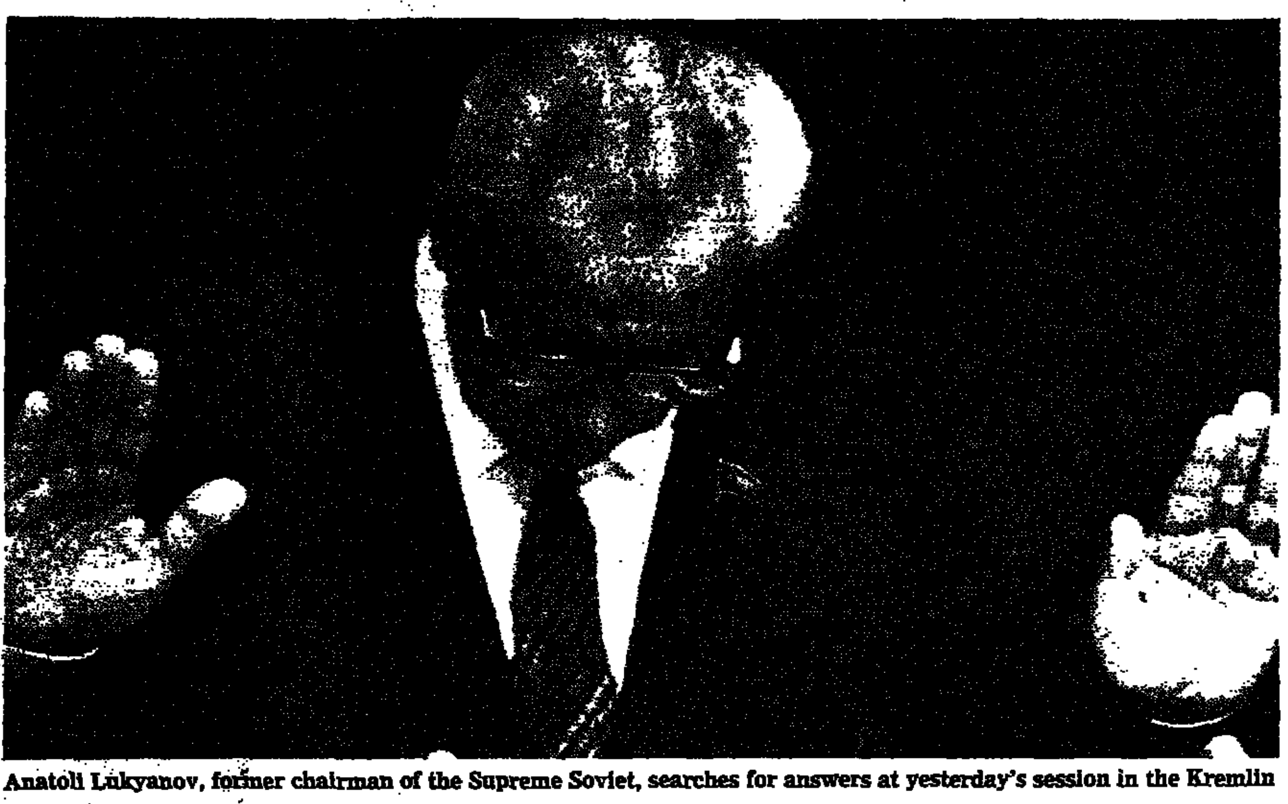
His press spokesman, Mr Vitaly Ignatenko, was appointed the new director of Tass, the official news agency, which, for 74 years a Communist mouthpiece, last week faithfully carried all the statements of the coup leaders.

Earlier, the Soviet parliament heard Mr Anatoly Lukyanov, the former chairman of the Supreme Soviet again deny that he was involved in the coup against Mr Gorbachev.

The parliament, however, ratified the sacking of the entire cabinet, proclaimed by Mr Gorbachev at the weekend.

Deputies also heard yesterday that 12 men would be tried for treason after last week's coup. They were not named but are almost certain to include the eight men known to have organised the putsch.

Continued on Page 14



Anatoli Lukyanov, former chairman of the Supreme Soviet, searches for answers at yesterday's session in the Kremlin

THE SOVIET UNION

Yeltsin extends grip on economy

By John Lloyd in Moscow and Kenneth Gooding in London

MR BORIS YELTSIN, the Russian president, has vastly extended his grip on the Soviet economy by declaring Russian control over all financial and currency dealings, together with transactions in precious stones and metals.

The decree was made on Sunday but published only yesterday. It gives the Russian authorities control over the Soviet Finance Ministry, the state bank (Gosbank) and the Bank for Foreign Economic Relations (Vneshekonombank). The state bank confirmed last night that the decree was now in force.

Mr Yeltsin has called for proposals, within a month, for the integration of the Soviet financial structures with those of Russia.

His decree also takes into Russian control the customs service on Russian territory – which includes the international airport at Sheremetyevo and the ports of Leningrad and Kaliningrad. The customs service will be able to export precious stones and metals only with the permission of the Russian government.

Mr Yeltsin's move presents the gravely weakened Soviet authorities with the dilemma of either bowing to the fact of Russian power, or attempting to confront it in an area where foreign confidence is vital.

At the same time, Mr Victor Gerashchenko was reinstated as state bank chairman. He has clearly been judged too precious a commodity for his ambiguous position during the coup to be allowed to count against his continued tenure.

Gold market traders and analysts were confused and divided about the implications of the move. Some thought it was positive for the gold price, while others felt the situation remained unclear.

De Beers, the South African group which last year signed a deal to sell Soviet rough (uncut) diamonds, said it was watching the situation but considered it had a valid contract with the Soviet government. Diamonds had been moved from the Moscow stockpile to London as collateral for a $1bn loan De Beers made to the Soviet Union with repayments made "like clockwork."

Gold market reaction, Page 22

Major calls on leadership to co-operate

By Lionel Barber in Washington

MR John Major, the British prime minister, yesterday called for close co-operation between President Mikhail Gorbachev and Mr Boris Yeltsin, the Russian president, to promote stability in the Soviet Union and smooth the path for western aid this winter.

On his first day of talks in the US, Mr Major pledged the west's readiness to help the Soviet Union with food and humanitarian aid.

But he made clear that direct financial assistance would depend on a credible economic reform plan accompanied by cuts in the Soviet defence budget.

Appearing on television interviews ahead of a visit to President George Bush's vacation home in Kennebunkport, Maine, Mr Major echoed the US president's strong support of Mr Gorbachev and of a close working relationship with Mr Yeltsin.

Mr Major said such co-operation was in the interest of the west and of the Soviet Union: "There's a danger of chaos, there's a danger of nobody knowing quite what is going to happen or how it can be brought out."

The British prime minister, who will visit Moscow this weekend, will be the first western leader to have direct talks with the new Soviet leadership. He will have separate talks with Mr Gorbachev and Mr Yeltsin, before continuing on a previously scheduled trip to China.

In Moscow, Mr Major will also be acting in his capacity as chairman of the Group of Seven leading industrialised nations, the body which has assumed the lead role in decision-making on aid to the Soviet Union.

During his television appearances, Mr Major enthused about the opportunities opened up by the failure of last week's putsch in the Soviet Union and the collapse of communist rule, in contrast to Mr Bush who has been more cautious in public. Mr Major described the collapse of communism as "a huge prize for the west".

Turning to Soviet efforts to introduce a market economy, he said: "We must help them produce it; it's in our interests and they need it."

Like his US hosts, Mr Major made clear the initial western aid package should stick to the outlines of the G7 agreement last July which focused on technical assistance and rejected Mr Gorbachev's pleas for a multi-billion dollar aid package.

"What the Soviet Union and the republics need at the moment is a clear plan of action," he said. "Putting economic prosperity in place will be a long job."

However, Mr Major indicated that food aid would probably be needed to help the Soviet Union this winter.

Toyota may expand into financial services sector

By Stefan Wagstyl in Tokyo

TOYOTA MOTOR, the Japanese carmaker, is considering expanding its financial services operations in a move that could have a far-reaching impact on the country's financial companies.

A management team is studying proposals to increase greatly the provision of car and housing loans for customers, to issue credit cards and possibly to install cash machines in dealerships.

Plans for the expansion come as the company unveiled a 15.3 per cent decline in pre-tax profits for the year ending June 30, to Y705.9bn ($5.15bn). It blamed the fall on a marked slowdown in the Japanese market, which is expected to last into next year.

The Japanese financial services sector is in turmoil, with banks and other companies under pressure from deregulation, public outrage over recent financial scandals, and excess lending for property development.

But Toyota denied trying to take advantage of the financial sector's difficulties. It said the proposals, if approved, were intended as an extension of services to people who bought or leased Toyota vehicles. Credit cards, for example, would be available only to Toyota customers.

Mr Hiroshi Okuda, a senior managing director, said: "We want to expand the market for durable goods in the future. I think sales finance will play an important role and become a core part of our business."

Toyota's move is reminiscent of the early stage of the expansion into finance of large US industrial groups, including General Motors and Ford, the carmakers. These also began by offering finance to fund sales of their own products but eventually established wide-ranging financial services companies. General Electric, the electrical combine, ended up buying a stake in Kidder Peabody, the Wall Street broker.

Toyota has often stated its aim of diversifying from vehicles. It has a large house-building subsidiary and interests in machine tools and aerospace. But none of these investments has significantly slowed the growth of the company's huge cash pile, which last June totalled Y2,500bn. However, Toyota has been cautious in its financial management and established Toyota Finance as a subsidiary only in 1988.

Toyota Finance provides finance only through some 300 of the group's 5,000 domestic sales outlets. The dealers go to independent credit companies for credit brokering services. Credit sales account for about 20 per cent of the total.

Mr Stuart Matthews, banking analyst at the Tokyo office of BZW, the UK stockbroker, said Toyota's move would probably have little effect on large financial companies but smaller ones, particularly those specialising in car loans, might suffer.

Toyota results, Page 17

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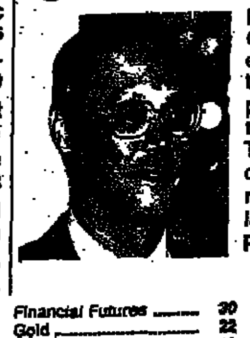
Singapore's PAP set to win against divided opposition



Prime minister Goh Chok Tong's surprise election call caught the opposition by surprise, and although the PAP is set to win, Tong's credibility rests on his ability to reverse the party's long-term decline
Page 4

MARKETS

STERLING
New York lunchtime:
$1.6925
London:
$1.69 (1.6805)
DM2.94 (2.9375)
FFr9.98 (9.9775)
SFr2.565 (2.5575)
Y231.0 (230.25)
£ Index 90.8 (90.7)

GOLD
New York: Comex Dec
$358.9 (359.5)
London:
$354.45 (354.6)

N SEA OIL (Argus)
Brent Oct
$20.05 (20.125)

Chief price changes yesterday: Page 15

DOLLAR
New York lunchtime:
DM1.7367
FFr5.8925
SFr1.516
Y136.6
London:
DM1.74 (1.7485)
FFr5.905 (5.9375)
SFr1.5175 (1.5225)
Y136.65 (136.95)
$ Index 66.4 (66.7)
Tokyo close: Y137.13

US lunchtime rates
Fed Funds: $5\frac{1}{2}$%
3-mo Treasury Bills: 5.452%
Long Bond: $100\frac{5}{32}$
yield: 8.094%

STOCK INDICES
FT-SE 100:
2,624.2 (+4.4)
FT Ordinary:
2,053.9 (+3.9)
FT-A All-Share:
1,259.1 (+0.2)
New York lunchtime:
DJ Ind. Av.
3,044.5 (+18.34)
S&P Comp
394.87 (+1.61)
Tokyo: Nikkei
21,621.63 (−19.67)

LONDON MONEY
3-month interbank:
$10\frac{13}{16}$ ($10\frac{13}{16}$)
Liffe long gilt future:
$93\frac{1}{2}$ ($93\frac{5}{16}$)

Republics rally to counter Russian imperialism

By Leyla Boulton in Moscow

JUST as it seemed that the Soviet Union was relapsing into helplessness, evidence emerged yesterday of joint efforts by the republics to tackle economic chaos and counter fears of a new Russian imperialism.

Mr Arkady Volsky, one of four members of a special committee set up to run the Soviet economy, said that all 15 republics had agreed to take part in the committee's work.

"This is a source of satisfaction," he said, noting that even the three Baltic republics, which are set on a path to full independence, would send "active observers".

"We have a clear interest in preserving economic ties with the Soviet Union," said a spokesman for Lithuania, who revealed there had been an agreement in principle to nominate Mr Vytautas Novickas, the deputy economics minister, as Lithuania's observer.

Mr Volsky also announced the cancellation of a decision on Monday by Mr Ivan Silayev, the committee's chairman and Russian prime minister, to put his people temporarily into top jobs at all-union institutions.

He said that the Soviet ministries' first deputy chairmen would do the jobs of their disgraced bosses.

Although Mr Volsky did not go into an explanation, it looks as though Russia is now trying to back-track in order to reassure other republics, even though its spokesmen claim that the Russian takeovers were aimed only at preventing the collapse of government.

Only the previous day, mighty Soviet ministries and banks saw Russian government officials arrive to take control of institutions whose chiefs were accused of complicity in last week's abortive coup.

In the meantime, republics outside Russia bristled with fear that, having saved the country from dictatorship, President Boris Yeltsin was seeking to reimpose a new Russian diktat on the rest of the country.

Amid a flood of independence declarations and warnings of inter-republican wars, there were also fears that the 15 republics would be unable to find a common language for rescuing the economy that binds them all after seven decades of central planning.

"The tragedy is that Mr Yeltsin does not even want a union government," an associate of Mr Volsky complained as recently as Tuesday.

Yesterday Mr Volsky seemed in a much better mood. "There will be a union government of some kind or another," he said after the committee had worked until 4am.

He said that six inter-republican committees would be set up to manage different areas.

On the ground, however, it was unclear who was running the creaking and uncertain machine of Soviet government. Early yesterday, Mr Andrei Zverev, a deputy Russian finance minister, was in charge of Gosbank, the central bank, after replacing the highly-experienced Mr Viktor Gerashchenko.

However, by the evening, Mr Gerashchenko, who is in a special position as a non-minister, had been reinstated in his job.

At the finance ministry, officials were still awaiting the arrival of Mr Igor Lazarev, the Russian finance minister who had been announced as the replacement for his Soviet counterpart, Mr Vladimir Orlov.

There were also signals that the Russian federation was still claiming as its own all the equipment and control over the resources of the country's top financial institutions.

Nonetheless, the latest signals from Moscow should help the west find some sensible interlocutor as it looks for ways of helping the Soviet Union out of its economic morass.

The World Bank has already approved plans for a $30m (£17.8m) trust fund to help introduce a market economy into the Soviet republics. "We will discuss using the money together with the republics," said Mr Zverev, while acting as Gosbank chief.

Mr Volsky also dismissed suspicions that the committee was just a fig-leaf for a Russian takeover and clarified who was supposed to be responsible for economic reforms.

In the four-man team, Mr Grigory Yavlinsky would take overall charge of economic reform and proposals for reintegrating the Soviet Union into the world economy.

His work would be complemented by that of Professor Evgeny Yasin, an economist with Mr Volsky's employers' confederation, who was working on emergency measures to support Soviet industry and entrepreneurship.

Prof Yasin's ideas had been passed on to President Gorbachev for use at next week's extraordinary session of the Congress of People's Deputies, or superparliament.

While annexing institutions such as Vneshekonombank, which handles hard currency payments and the Soviet debt, Russia had also made menacing noises about reviewing its borders with those republics that wanted to leave the union.

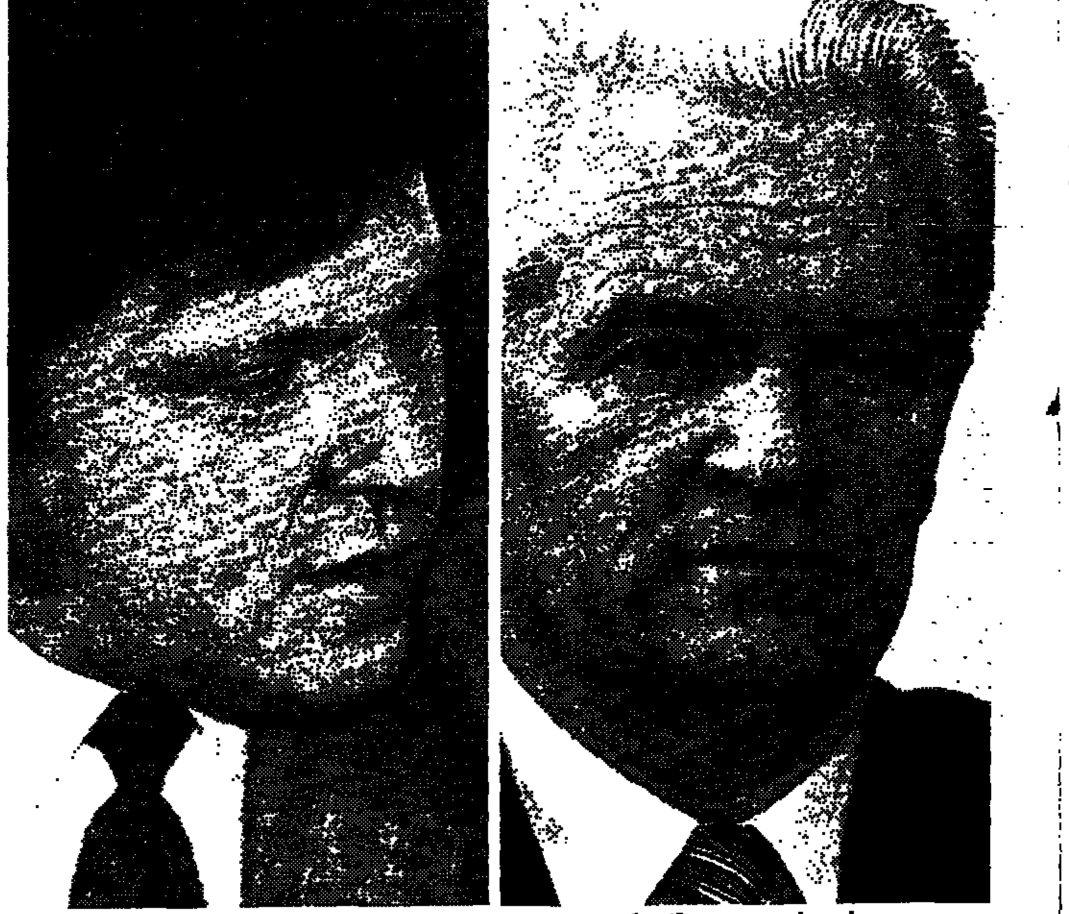
Mr Mikhail Fedotov, Russia's deputy information minister, suggested yesterday that it had been undiplomatic to make public the fact that Russia reserved the right to review its borders. "Such declarations should be made in intimate negotiations."

But the aim of going public, he said, was to try to "preserve the union".

Senior officials from Gosbank, the Soviet central bank, are due to visit London next week to discuss plans for reshaping the Soviet economy, writes Peter Marsh.

They are scheduled to attend a meeting of the directors of the European Bank for Reconstruction and Development, which will review the bank's strategy to provide assistance from industrialised nations to aid Soviet economic reform.

They may also meet representatives of the International Monetary Fund in Washington later in the week.



Grigory Yavlinsky (left) and Ivan Silayev prepare to take the economic reins

Anxious to avoid vindictiveness: Moscow Mayor Gavriil Popov being welcomed with flowers in Berlin yesterday

Democrats reassure party men

By Leyla Boulton

VICTORIOUS democrats are trying to show mercy to losers from the fallen Soviet Communist Party. But old habits die hard after seven decades of oppression – especially when many of the self-proclaimed democrats are former Communists.

With a vindictiveness unprecedented since Stalin's purges, denunciations of people said to have supported last week's coup are flooding into the offices of the leaders of this second Russian revolution. Mr Gavriil Popov, the radical mayor of Moscow, says that only 10 per cent of such mail has merited following up. The rest, he suggested, were petty attacks on bosses, colleagues and neighbours for even sympathising with the putschists.

"This is a sign of a sickness in our society which we have yet to uproot," Mr Popov said in a late night television interview – one of a series he has given to get the new word across. Mr Popov, who told viewers of "Good Evening Moscow" that only the executors of last week's coup would be punished, was also clearly anxious to reassure "dissenters" that they would not suffer the same fate as the victims of the first Russian Revolution.

He reassured functionaries of the Communist Party, which has all but collapsed since its central committee was dissolved, its property seized and its leadership discredited, that they would be given an opportunity to retrain for other jobs.

The Russian leadership is also moving against accusations that it is applying a new tyranny over media which supported the coup. Mr Mikhail Fedotov, Russia's deputy information minister, said yesterday that Communist party newspapers, such as Pravda and Leninskoye Znamya, were being allowed to reappear after re-registering themselves. They would be keeping their old names for the time being simply not to confuse subscribers.

Toward the party itself, however, Mr Boris Yeltsin, the Russian president, his democratic allies, and even Mr Mikhail Gorbachev, its betrayed general secretary, are showing no mercy.

Gosbank, the state bank, has frozen all Communist party accounts to prevent it from hiding assets which President Gorbachev has ordered to be given back to the people. Attempts are also being made to track down its investments abroad.

Soviet bosses on course for higher standards

By Paul Cheeseright, Midlands Correspondent

OUTSIDE in the lazy summer sun a girl in a black riding cap goes through her equestrian exercises. Inside, the lecturer emphasises his point with a movement of the arm: "The most important part of any strategy is getting the initial steps correct".

This is the rural headquarters of the Engineering Employers' East Midlands Association in Barleythorpe, Leicestershire, scene of the only training course in the UK that the British government's "know-how fund" for the Soviet Union has so far assisted.

The course, tailored for a group of Soviet managers, largely from the engineering industry, has moved on from the detail of quality management techniques to consideration of business strategy and business planning.

The words of the lecturer, Mr John Brough, who once formulated strategy at BOC, the industrial gases group, are an unintentional metaphor for Mr Boris Yeltsin's political strategists.

First, establish the long-term goal of the business, the "mission statement", he says. "It is important that the mission is clearly articulated, that it be concise, that it is directional."

On the other side of the horseshoe table, the 18 managers from the Leningrad area take it all in quietly before adjourning for mid-morning coffee and Ruddles beer. They are itching to return home at the end of the week – to St Petersburg. They use the imperial name. They want to find out what is going on. Spreading the gospel of quality management will come later.

The "quality" gospel will be spread by Soviet managers

Mr Mikhail Krotov – "I know Eduard Shevardnadze quite well" – is the leader of the group and has surrounded himself with likeminded reformers from Leningrad business.

With the failure of the coup, Mr Krotov believes there will be greater opportunities for Soviet business, working according to free-enterprise principles.

"The necessity to implement international standards will be greater," he says. Soviet standards are quite different from international standards, leading to trading problems: customers cannot be sure of what they are buying. "The task of integrating into the world market cannot be achieved without implementing international standards," says Mr Krotov.

MacGregor Associates, the Nottingham management consultancy which organised the course, has been training the Soviet managers in the techniques of assessing and certificating standards since the beginning of this month.

The training has been the same as potential British assessors would have. And the managers are evidently good at it.

"They weren't also-rans. They understood it. They will go back and start setting up certification bodies," says Mr Mike Smith, a MacGregor partner.

On the practical side, for Mr Krotov, the vehicle for bringing Soviet business into closer touch with the outside world could be joint ventures in the Leningrad free trade zone and the conversion of military plants to civilian products; it is in these plants that Soviet technology is most developed.

The "quality" gospel will be spread by the Soviet managers through Znanie, in some ways equivalent to the British Association for the Advancement of Science, but different in that it has commercial and property interests.

Mr Krotov is a leading light in Znanie, many of the Barleythorpe course managers are members, and so are about 3m other managers and academics throughout the Soviet Union.

MacGregor has signed a joint venture agreement with Znanie which will mean more training and greater efforts to put Soviet managers in touch with European business.

Over the next six months, five more courses are planned, for which subsidy will be sought from the £50m know-how fund.

Review of air force cuts urged

WESTERN countries will need to revise plans for cutting back the strengths of their air forces in the light of instability in the Soviet Union and Yugoslavia, according to a leading UK expert, writes David White.

Mr Mark Lambert, editor of the authoritative Jane's All the World's Aircraft, said the recent events "must have some impact" on air force planning.

He added that the recent Gulf conflict had shown up the "screaming shortage" of military transport aircraft, except in the case of the US.

It was essential that programmes for new combat aircraft such as the US F-22 Advanced Tactical Fighter and the four-nation European Fighter Aircraft (EFA) should go ahead, he said. Doubts over German participation in EFA production have cast a shadow over the project.

He warned that the Soviet Union had already announced plans for two new fighters with stealth features to enable them to avoid detection by radar.

Mr John Taylor, a former editor of the yearbook, the latest edition of which was published yesterday, said that the Soviet Union's latest MiG-29 and Su-27 aircraft were "as good as anything in Nato" in terms or aerodynamics and handling. However, they would not outmatch the new EFA, he said.

Italy speeds up Soviet loans

ITALY said yesterday it would more than double its commercial loans to the Soviet Union to L2,500bn (£1.1bn) this year to provide consumer goods and fuel for the winter, AP reports from Milan.

The state export credit insurance agency, SACE, authorised the payment of a further L1,500bn of loans that were originally scheduled for the second half of 1993 and all of 1994, according to a statement from the Treasury Ministry.

The loans are part of a L5,000bn government-guaranteed loan package for the Soviet Union that was supposed to have covered the five-year period starting in 1990.

Italy has been one of the strongest proponents of direct financial aid to support the reform efforts of Soviet President Mikhail Gorbachev.

KGB leadership ousted in reshape

By Anthony Robinson in Moscow

THE TOP leadership of the KGB, the state security committee, was dismissed yesterday by Soviet President Mikhail Gorbachev.

Mr Gorbachev also transferred control of the well-armed KGB military units, including the 200,000-strong border guard, to the Defence Ministry and removed the organisation's responsibility for and surveillance of government communications.

Mr Ivan Silayev, the new Soviet premier, has been given overall political control of the KGB, police, defence and interior ministries in a new government structure announced yesterday.

The decree dismissing the ruling KGB "collegium" marked a new stage in the purge of Soviet state and party institutions following last week's coup attempt.

The myth of the all-seeing, all-powerful KGB has taken a knock as a result of last week's failed coup. Its former chairman, Mr Vladimir Kryuchkov, was an active coup leader; he and a handful of other senior KGB officers are under arrest.

Last Friday he was replaced as chairman by Mr Vadim Bakatin, the liberal former minister of the interior who was sacked and replaced by Mr Boris Pugo last December when Mr Gorbachev reshuffled the government under hardline pressure.

Shortly before Mr Gorbachev issued his decree yesterday, Mr Alexei Kondaurov, deputy chairman of the KGB's public relations department, sought to defend the organisation from charges that it had a played a central role in planning and executing the coup.

In an interview at its headquarters in Moscow, he said most senior officers of the organisation were not informed of the coup and took no part in it.

According to Mr Kondaurov, he and most other senior officials first learned of the coup attempt on their radios on their way to work. Like other Soviet citizens, he added, they were still seeking a rational explanation for actions which "contradicted all the rules and norms" of the sort of classic governmental overthrow in which the KGB specialised.

"It is difficult to qualify what happened as a putsch. Those who took part were already holders of the highest state offices. In effect they were overthrowing themselves. The whole situation was absurd," Mr Kondaurov said.

Apart from Mr Kryuchkov, only three other KGB officials were arrested after the coup, while another senior official, Mr Anatoli Beda, was removed from his post and five or six others had resigned, he said. Those arrested were Mr Victor Grushkov, deputy head of the KGB and a member of the now-disbanded collegium, Mr Yuri Plekhanov, and his deputy Mr Vycheslav Generalov.

Struck down by their favourite son

Ironically, Gorbachev was the KGB's 'nominee' for Soviet leader, writes **John Lloyd**

LAST Thursday night, as thousands massed outside the Lubyanka headquarters of the KGB to pull down the statue of the organisation's founder, Felix Dzerzhinsky, you could see the blurred faces of men, standing back from the windows, looking down at the destruction of their iron protector.

They did not attempt to stop the desecration, and the disciplined crowd did no more than make rude gestures at them.

They must have known that the days of the KGB's enormous power were over.

Enormous power there was. The KGB grew from an instrument designed to protect the Bolshevik revolution from its ideological enemies "by means of terror", especially during the civil war.

"The government of the workers," said Lenin in 1918, "cannot exist without such an organisation as long as exploiters remain in the world."

Conceived as an instrument of terror internally and of subversion abroad, the KGB, through successive renamings, simply extended these functions to monstrous dimensions.

All political activity regarded as even potentially hostile to the Communist Party and Soviet power was monitored and suppressed. During the 1930s, at the time of the purges, the KGB was used against the Party, the government, the military and finally against itself.

Always subordinate to the party, it was omnipresent in Soviet society and no clear lines separated its functions from politics, government, diplomacy, propaganda and the media.

Right up to the present period, its roles have included:

- taking an active part in the government of the country, including an oversight of all international treaties;
- suppressing internal dissent;
- guarding top officials;
- combatting industrial disaffection and increasing economic efficiency;
- investigating crime, including serious economic crime, a line of work which it has stressed recently;
- strengthening "social morals";
- providing information for the leadership;
- counter-intelligence;
- special tasks, including spying on senior officials for other senior officials.

The KGB has paralleled the party, whose shield it was designed to be, in its organisation.

It has republican and district organisations, and major offices in every large town – though in some of the independence-minded republics, such as the Baltics and Georgia, the local KGB, or part of it, has already gone over to the new leaders.

Its size and budget has never been disclosed. However, western estimates put the number of full-time KGB officers, at home and abroad, at 600,000-700,000, with the ability to call on a further 250,000 Internal Ministry troops and several millions of part-time and occasional volunteers and informers.

Of these, some 6,000 were permanently stationed abroad, in embassies and under the "cover" of trade missions, newspaper correspondents and tourists.

Peter Derlabin and T.H. Bagley, respectively former KGB and CIA agents, estimate in the book, The KGB: Masters of the Soviet Union, that the number of informants is as high as 10m.

Traditionally, the KGB chief has been a member of the Politburo, but that understates its power at the very top.

Most senior communists have had contact, or even service with, the KGB or the closely associated Interior Ministry, and none would have been free from its influence.

Mr Yuri Andropov, briefly party chief in the early 1980s, had been head of the KGB – his protégé was Mr Mikhail Gorbachev, the KGB's "nominee" for the general secretary's post.

Now, with its chairman, Mr Vladimir Kryuchkov (a Gorbachev appointee), disgraced for turning in frustration against his master during last week's coup, the KGB has been struck down by its party favourite.

There is now an opportunity to recreate it as a "normal" secret service. But the Lubyanka holds a huge weight of dark secrets, which must now be threatened with the light of disclosure.

Source: Desmond Ball and Robert Windren, 'Soviet Signals Intelligence (Sigint): Organisation and Management', Intelligence and National Security, vol.IV (1989), no.4 and Oleg Gordievsky

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Face down on the pavement, members of a suspected criminal gang are searched by a special police unit in the centre of the Ukrainian capital, Kiev. Ukraine, the Soviet Union's second largest republic, has been experiencing a growing crime problem, with some 150 gangs believed to be operating in the capital alone.

Territory dispute prompts dispatch of Russian and Soviet delegations to Ukraine

Republican heavyweights square off

By John Lloyd in Moscow and Ariane Genillard in Kiev

THE Russian and Soviet parliaments yesterday sent delegations to meet Mr Leonid Kravchuk, Ukraine's president, to discuss the rapidly worsening relations between the two largest Soviet republics.

Mr Alexander Rutskoi and Mr Sergei Stankevich, respectively Russian vice president and state counsellor, were first to fly to the Ukrainian capital Kiev, followed by a hastily arranged four-man deputation from the Supreme Soviet of the USSR headed by Mr Anatoly Sobchak, Leningrad's mayor.

The flurry of activity, aimed at retaining central influence in the deteriorating situation, follows Monday's statement by Mr Pavel Voshchanov, press secretary to Russia's President Boris Yeltsin, that all borders between Russia and those republics which did not sign the union treaty would be open to question.

Mr Sobchak said on Tuesday that Russia should not accept Ukrainian control of the Crimea, transferred from Russia by Mr Nikita Khrushchev, when Soviet leader, in 1954.

The other areas specified as open to question by Mr Voshchanov were the industrial Donbass region, where Russians and Ukrainians are intermixed, and the northern area of the republic of Kazakhstan, which has a majority Russian population.

Mr Leonid Kravchuk, the Ukrainian leader, said on Tuesday that the statement "sent reverberations through the republics.... territorial claims are very dangerous and could end in problems for the people". There would be no negotiations with Russia on the borders until after the republic had held a *referendum* on December 1, designed to ratify its declaration of independence last week, he said.

"People here feel no political treaty should be signed before the Ukraine has elected its president and adopted its own constitution," said a foreign ministry official.

Mr Kravchuk's firm attitude was widely supported yesterday by the Rukh nationalist movement, which called on its supporters to protest in front of the parliament building. Shouting "Independence!", demonstrators carried banners reading "Ukraine is a sovereign country and not a Russian province".

Mr Andrei Berezny, a university professor, among the angry crowd, said: "The attitude towards Mr Yeltsin has changed dramatically over the past two days. People feel he is taking *himself* for one of Russia's former tsars."

Russia and Ukraine are linguistically and ethnically close and have been governed as one for centuries. With Belorussia, which has also declared independence, the three make up the Slav core of the Soviet Union.

Baltic states to seek up to $3bn from west

By Robert Taylor in Riga

THE Baltic states will seek up to $3bn from western countries to help rebuild their shattered economies, Latvia's president, Mr Antolij Gorbunov, said yesterday. Presidential advisers, in co-operation with Estonia and Lithuania, were drawing up a joint plan on how the aid would be used, he added.

Mr Gorbunov expected the US to recognise the independence of the Baltic states by the end of the week. He said that Latvia had recognised Israel yesterday and that 16 countries were now in the process of establishing diplomatic relations with his country.

However, Mr Gorbunov admitted that serious problems remained over the future of the Soviet armed forces, the KGB, and the elite "Black Beret" security forces (Omon) in Latvia.

He said it would require "a period of very hard work" to solve those difficulties.

He said he had been assured by the new Soviet army command that the military would not interfere in Latvia's internal affairs. "We have control of our own territory, unless the Soviet armed forces intervene," he insisted.

Latvia's parliament has voted for the disbandment of both the KGB and Omon in the country. But yesterday KGB negotiators were still insisting there was a need for them to stay in Latvia, and the head of the Omon insisted his men would not be leaving either.

Mr Gorbunov, however, pointed out that both the Soviet defence and interior ministries had promised to remove the KGB and Omon from Latvia in the immediate future. He refused to be drawn on what would happen if the Omon stood firm in its barracks and refused to leave. But other Latvian officials said that force might be necessary as a last resort.

A growing difficulty for Latvia is the future of its nearly 49 per cent non-Latvian population. Mr Gorbunov said that the citizenship issue would have to be "decided immediately." But he sought to offer reassurance that this would be resolved with "tolerance and democracy."

The Russian minority opposition groups in the Latvian parliament are likely to insist that everybody in Latvia is treated equally.

Russia looks for quick settlement of Kuriles dispute

By Anthony Robinson in Moscow and Stefan Wagstyl in Tokyo

THE RUSSIAN government is expected to move quickly to improve political and economic relations with Japan by speeding up negotiations for the return of the four northernmost Kurile islands, captured by the Red Army at the end of the second world war.

Mr Georgi Kunadze, the Russian deputy foreign minister, told the Japanese news agency Jiji that settlement of the islands dispute was now a top foreign policy priority.

Mr Boris Yeltsin, the Russian president, he added, had softened his previous policy, which called for the staged creation of a joint economic zone without any commitment to hand back the islands.

Mr Kenji Tanaka, a senior Japanese diplomat, said yesterday: "We hope that recent events have been helpful in finding a solution to this problem which could open the way for signature of a peace treaty and greatly improved relations in all areas."

A high-level Japanese delegation is in Moscow this week to discuss the dispute – and to try to establish where power rests in the Soviet Union after last week's abortive coup.

The territorial dispute has blighted relations between Moscow and Tokyo and contributed to the low level of economic ties. Bilateral trade accounts for under 2 per cent of Japan's total trade.

Hopes that President Mikhail Gorbachev's historic first visit to Japan earlier this year might accelerate a settlement were dashed when it became clear that he felt he could not surrender territory.

Mr Yeltsin's pronouncements have varied – he appeared conciliatory on a visit to Japan last year but said on a subsequent visit to the Soviet Far East that Russia had no land to spare.

However, if the Soviet Union senses the Group of Seven industrial states are about to offer large-scale aid, its leaders may judge a settlement with Japan is indispensable. Only Japan has the huge financial resources to supply the funds.

Democrats press for US aid package

By Lionel Barber in Washington

LEADING Democrats yesterday urged President George Bush to support a big economic aid package for the Soviet Union to capitalise on the collapse of communist rule.

Mr Richard Gephardt, House majority leader, supported using funds from the US defence budget. Senator Bill Bradley, New Jersey Democrat and a long-standing sceptic on economic assistance to the Soviet Union, called for expanded aid to the republics to help them build market economies.

By calling in general terms for an aid package, the Democrats aim to highlight Mr Bush's cautious approach since the abortive Kremlin coup. The president has faced congressional criticism for waiting to extend diplomatic recognition to the Baltic states.

However, there are important differences in the plans put forward by Mr Bradley and Mr Gephardt. The former wants to see each Soviet republic eligible to apply for full membership of the IMF, World Bank, and European Bank for *Reconstruction and Development*. Each republic would compete for financing at these institutions as they would on capital markets.

Mr Gephardt is calling for credits, loan guarantees, and other forms of non-cash assistance conditional on reforms in the Soviet economy and phased over several years. The sums could reach $1bn and $3bn annually.

Crucially, Mr Gephardt's plan requires the relaxation of constraints in last year's budget agreement which sets separate caps for domestic, defence and international affairs.

French party in state of shock

By Robert Mauthner in Paris

THE FRENCH Communist Party, one of the last bastions of relative communist orthodoxy in Europe, has received a rude shock from the failed Soviet putsch which threatens to hasten its own demise.

Undecided which way to turn at the beginning of the coup, as the result mainly of the mental acrobatics of its long-time leader, Mr Georges Marchais, the party is involved in an agonising reappraisal of its ideological stance and its relationship to the governing socialists.

It is also threatened by serious internal divisions between its traditionalist wing, led by Mr Marchais, and an important group of reformers, including several former communist government ministers.

It took the party's political bureau eight hours yesterday to agree on a long declaration justifying the ambiguous position it took at the beginning of the abortive coup on August 19. At the time, while describing the manner in which President Mikhail Gorbachev was briefly overthrown as "unacceptable", it strongly criticised the meagre results and unfortunate social consequences of perestroika.

The general impression given by the original statement (even though subsequently copiously amended) and yesterday's declaration, is that the bulk of the politburo finds it difficult to reconcile itself to the new situation in the Soviet Union and, in particular, to the emergence of new democratic forces under the leadership of Mr Boris Yeltsin.

Meanwhile, the party finds itself both vilified and wooed by the socialists. While some prominent socialists believe their party should finally break all remaining links with their erstwhile partners of the Union of the Left, others still favour a wider left-wing grouping with a reformed communist party, because of its possible electoral advantages.

Portugal's hard-line communist party is in a similar position to its French counterpart, Patrick Blum adds from Lisbon. Key party members have called for the leadership's resignation and some have handed in their party cards in protest at the initial support for the Soviet coup and at the leadership's subsequent attempts to justify itself.

India rules out privatisation of state banks

By David Housego and Alexander Nicoll in New Delhi

DR Manmohan Singh, the Indian finance minister, yesterday ruled out privatisation of state owned banks which account for the bulk of deposits in the country.

"We have no intention of privatising the existing nationalised banks," he said. He specifically denied that there would be any sale of shares in State Bank of India, the largest state-owned bank. A few shares are already in private hands, and there had been market speculation in Bombay that a large share offer was in prospect.

He left little doubt that India was still at odds with the International Monetary Fund over the pace of reform in the financial sector. The IMF and the World Bank have been urging the government to cut subsidised bank loans to priority sectors and to reduce statutory and cash reserve ratios as a means of improving their weak balance sheets. The reserve ratios require banks to place 63 per cent of their deposits with the central bank.

Dr Singh said that the government's intention was to reduce its own borrowing from the banking sector by curbing the government's deficit. But of the statutory liquidity ratio, he said: "We have no plans to reduce it." He made clear that even after the banks had been restructured they would maintain a "social role" in providing subsidised interest rates to the underprivileged.

In a further disclosure of the government's intentions he said he would quantify the government's target for tariff reductions in the next budget in March. India has some of the highest tariff barriers in the world with an average weighted tariff of around 112 per cent.

The World Bank and the IMF have been been pressing the government to reduce these to 25 to 40 per cent over three years. But although the government has accepted the principle of tariff reduction, it has so far declined to set a target or a date for cuts.

On India's short term external liquidity problems, Dr Singh said: "We made a right beginning but we are still obviously not out of the woods."

The government has pledged to undertake a programme of structural reforms.

Hungary seeks foreign cash for toll roads

Andrew Taylor reports on plans for a transport revolution in the heart of Europe

THE spectacle of heavy lorries grinding through picturesque villages on the shore of Europe's biggest freshwater lake in southern Hungary demonstrates the huge problems facing eastern Europe as it struggles to raise the money to rebuild inadequate roads.

The E71 road which runs for 80km along the southern shore of Balaton Lake is an important trade route connecting northern Yugoslavia and the port of Trieste in northern Italy with Budapest, the Hungarian capital.

The region is very beautiful. Thousands of tourists visit, many by car, competing with lorries for road space and adding to environmental problems. The only motorway section runs for 90km northwards from the lake to Budapest.

The Hungarian government, in an attempt to raise money to build new motorways, is planning to invite international companies to bid for concessions to finance, build and operate up to 500km of new toll roads. This could *include a motorway from Lake* Balaton to the Yugoslav border.

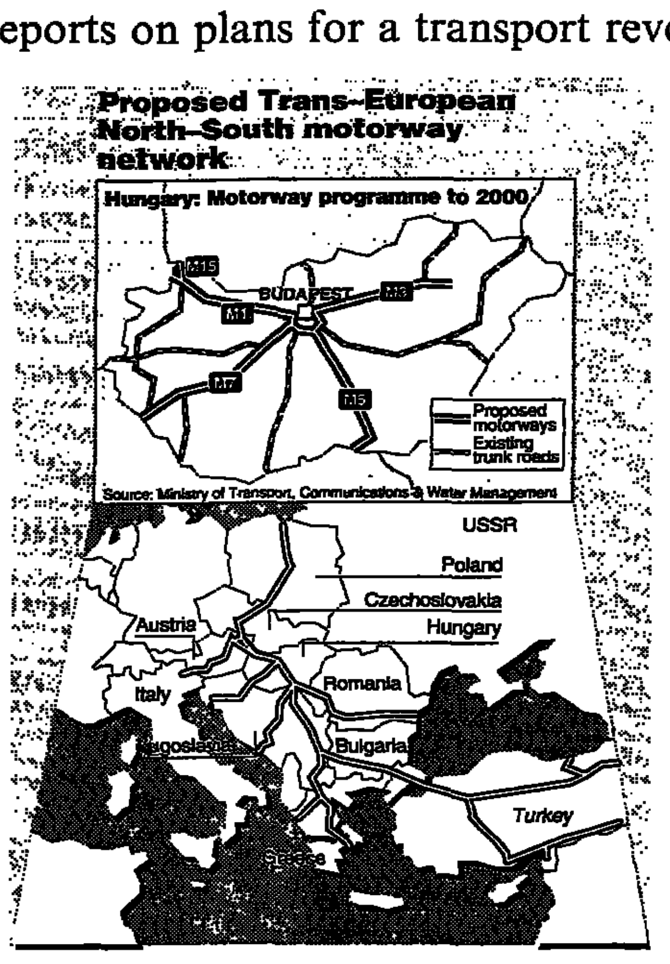
Similar moves may be expected from other eastern European countries which lack the finance to build their own roads.

Invitations to tender for the first of Hungary's private toll motorways are to be advertised next month in the official journal of the European Commission.

European and US companies which have been advising the Hungarian government and may be among the bidders include Italstat, Italy and Europe's biggest toll road operator; Transroute, which represents a number of French toll road companies; and Bechtel, the US engineering group.

The motorway, the Hungarian M1, will connect Budapest to the Austrian and Czechoslovak borders. It is expected to cost Forint 11.8bn ($168m) to build – rising to $336m after allowing for interest charges and inflation. The concession will run for between 20 to 50 years after which the road will be returned to the state.

Other motorways in the Hungarian road programme which could be be financed privately include the M7, to bypass holiday towns along Lake Balaton; the M5 which will travel south-east towards borders with Yugoslavia and Romania; and the M3 which will open up the eastern regions of Hungary towards the Soviet Union.



The aim is to prevent roads becoming clogged as car ownership rises and trade between western and eastern European countries increases.

Hungary's position at the heart of Europe bordered by Austria, Czechoslovakia, Yugoslavia, Romania and the Soviet Union puts it at the crossroads of international trade routes. Many of the container lorries which pass through the country will begin and finish their journey outside its borders.

The motorway which will pass Lake Balaton is expected to become a small chain in a network from the Black Sea to the Baltic, linking Yugoslavia, *Italy, Greece and Turkey in* southern Europe through the former eastern bloc countries of Hungary, Romania, Bulgaria and Romania to the port of Gdansk in northern Poland and eastwards to the Soviet Union.

Plans for a Trans-European North-South Motorway (TEM) were proposed in 1977 by Economic Commission for Europe, part of the United Nations organisation. So far only 2,000km have been constructed of the 10,000km proposed.

A further 4,200km are at various stages of design and development, says the commission.

Mr Alastair Dick, a British transport consultant advising the Hungarian government, says: "The need for new roads will become more pressing as economies expand. Road transport is more flexible, and will achieve results more quickly *than if similar sums were* invested in railways."

East Germany's Reichsbahn *railway needs some* DM50bn ($28.5bn) for modernisation and is not expected to make a profit for the next 10 years, according to Mr Heinz Dürr, the management board chairman of the west German Bundesbahn, Reuter *reports from Bonn*. Mr Dürr, who recently took charge of the eastern system, told German radio the amount did not include the cost of cutting Reichsbahn jobs from the current 200,000.

Railways, which previously carried the bulk of traffic in eastern Europe, will require substantial changes if they are to be modernised and integrated with western European railway systems, according to Mr Dick.

The problem facing the Hungarians and any other eastern European country trying to raise private road finance will be to set tolls high enough to satisfy investors and lenders but without penalising emerging businesses in the domestic economy.

Lenders, which could include the newly formed European Bank of Reconstruction and Development and the European Investment Bank, may also wish to see financial guarantees from Budapest.

This could include the government taking a stake in the concessionaires. It might also provide financial assistance to encourage lower tolls. Foreign vehicles might be encouraged to pay tolls in their own currency while domestic users would pay in forints.

Industrial recovery 'will be slow' in Sweden

By John Burton in Stockholm

THE Swedish Federation of Industries, in a gloomy forecast before general elections on *September 15*, yesterday predicted industrial output would not recover to its 1989 peak until the end of the century.

Industrial production will fall by 6 per cent this year and 3 per cent in 1992, returning to level before the 1982 devaluation, which marked the start for an economic boom during the 1980s.

The Swedish economy will continue to contract, with gross national product falling by 1.5 per cent this year and 0.9 per cent in 1992 as it starts to level out during the second half. But the recovery thereafter will be long and difficult.

Unemployment will rise to 6 per cent by the end of 1992, according to the federation, which has been criticised by the Social Democratic government for being too pessimistic in its economic prognoses.

Mr Ola Virin, the federation's chief economist, said Sweden was threatened with gradual deindustrialisation, which would result in declining exports and a long-term trade balance deficit rather than the surplus the country now enjoys.

He noted that industry's share of GNP had fallen below 20 per cent in 1990, the first time since the beginning of the 20th century.

The federation conceded that inflation had been brought under control.

Genscher wants faster EC decision-making

By David Goodhart in Bonn

RECENT EVENTS have shown that the foreign policy decision-making process of the European Community needs to be "drastically improved", according to Mr Hans-Dietrich Genscher, the German foreign minister.

In a newspaper interview published today, Mr Genscher makes a plea for majority voting on foreign and security matters, and says it is "an illusion" to imagine that in crisis situations the EC can act effectively while sticking to the principle of unanimity.

Mr Genscher emphasised his wish to see an extension of the political, economic and social "stability zone of the EC" to the whole of Europe but also said the Conference on Security and Co-operation in Europe (CSCE) would have a more important role to play in future as a "European security council".

In the light of the failed coup in the Soviet Union, Mr Genscher called for a new disarmament initiative for short-range nuclear weapons and nuclear artillery.

In a separate statement, Mr Genscher said EC countries must open their markets to central and eastern Europe. "Opening the borders would certainly have a negative effect on certain sectors in the EC – farming, steel and textiles – but it must be done to avoid far greater problems in the countries effected," he said.

The German cabinet yesterday officially re-opened diplomatic relations with the three Baltic states of Estonia, Latvia and Lithuania. Official recognition was not required as the Federal Republic never accepted their absorption into the Soviet Union.

However, Mr Vytautas Landsbergis, the Lithuanian President, yesterday criticised Germany for recognising Baltic independence only after Russia had already opened the way.

Banks seek easing of tax

GERMAN banks are pressing the Finance Ministry to take three-quarters of investment income tax payers out of the tax net.

The ministry is drafting legislation following a constitutional court ruling in June which declared the present system of voluntary investment income declaration inequitable because at least half the potential taxpayers were failing to pay up.

The court ruling puts the government in a quandary, as most measures to comply risk provoking a flight of capital that could jeopardise the unification funding process.

The Federal Association of German Banks favours a solution that raises dramatically the tax-free allowance for smaller savers, but at the same time leaves intact the much-prized German banking secrecy laws. Investment incomes in excess of a new generous ceiling would face an initial levy of 20 to 25 per cent at source, paying the balance at their marginal rate with their annual income tax submissions.

Investors can currently earn DM600 ($342) a year (DM1,200 for married couples) without tax liability. The association says that if the allowances were raised to DM5,000 and if long-term pension plans were exempted, that would remove three quarters of all domestic investors from the investment income tax net altogether.

Annual inflation rate dips

WEST GERMANY'S annual inflation rate, about which the Bundesbank has shown marked concern in the past few weeks, eased in August to 4.1 per cent from 4.4 per cent in July, the Federal Statistics Office said, Andrew Fisher writes from Frankfurt.

The reduction stemmed mainly from lower prices of some seasonal foods and cheaper heating oil. The figure, based on provisional returns from four large states – Bavaria, Hesse, North Rhine-Westphalia, and Baden-Württemberg – is still above levels that the Bundesbank has indicated it would find acceptable.

● Consumer prices in the European Community rose an average 0.5 per cent in July after 0.4 per cent in June, for a year-on-year rate of 5.3 per cent compared with 5.1 per cent in the year to June, according to Eurostat, the EC statistics office, Reuter reports from Luxembourg.

BA hits snag over German air service

By Leslie Colitt in Berlin

BRITISH AIRWAYS and a group of German banks have hit serious delay in their attempt to set up a successor airline to BA's internal German service.

Talks between BA and OTV, the public service and transport union, over lower wages and reduced staff for the new airline, Deutsche BA, have been "frustrated", Mr Paul Giblin, BA's area manager for Germany, said yesterday. BA will own 49 per cent of the new airline. The investment arms of Commerzbank, Bayerische Vereinsbank and Berliner Bank will hold the majority stake, for it to qualify as a German airline.

The delay will force BA to cut its German service another 10 per cent next winter, after a 20 per cent cut this year. Because of German unification, foreign airlines must wind down their internal German flights by 20 per cent a year, up to 1993. By that time, though, BA would have to give up a large portion of its slots – take-offs and landings – at German airports which are equivalent to market share.

Mr Giblin stressed BA and its German partners were seeking a lower-cost structure for the new airline amounting to "significant cuts" in pay and cabin crews – difficult under German law as companies forming a new group must agree with the unions on how many employees are to be transfered to the new operation. Both sides had given ground, but the union was resisting further concessions, he said. New talks were scheduled for September 11 but agreement was still a long way off. The differences centre on wages and working conditions which affect staff levels.

BA said it would close several of its German routes flown with turbo-prop aircraft in the coming winter, in reaction to *the 10 per cent cut in slots and* a German demand that all turbo-prop airliners be moved from Tegel Airport, Berlin, to Tempelhof Airport. This would have involved a costly split of operations. But routes closed were the smaller ones.

Serbia keeps iron grip on the media

By Laura Silber in Belgrade

WHEN Yugoslav federal army jets bombed the Croatian city of Vukovar earlier this week, the Serbian state-controlled media triumphantly announced that Vukovar was being "liberated".

This cynical description followed intense violence. Thirty people were reported killed when the city was captured. Film from the two-day attack showed it in ruins. But those shots were not broadcast on Belgrade TV. Except for a handful of Belgrade-based opposition programmes, Serbia's ruling Socialists (SPS) keep an iron grip on radio and TV. "They use half-truths to control and manipulate public opinion," Mr Zoran Djindjic of the opposition Democratic Party says.

In an attempt to mask Serbia's isolation, Belgrade Television on Tuesday claimed a visit of three Britons was an official delegation. In fact, the three – the Duke of Somerset, Mr Henry Bellingham, a Conservative MP, and Mr John Kennedy, a prospective Conservative candidate – were on a private visit as guests of the Serbian government.

The "official visit" was the first item on Tuesday's evening news, before the battle scenes from Croatia, and half an hour before the information that the EC had recognised the Baltic republics. Extended nightly broadcasts include excerpts from the foreign press so distorted it appears the west supports Serbia.

"I do not believe anything on Belgrade Television, even the subtitles on foreign films," Mrs Jelka Drazenovic, a Belgrade journalist, told a hall packed in protest at the crackdown on the already-repressed media. "The SPS behaves as if it is the ideological occupier of Serbia," says Mr Djindjic. In March, the opposition protested against the Socialists' hold over the media. The protests, which left two dead, led to the sackings of media chiefs.

But after a brief respite, Belgrade Television reverted to its old politics, in an attempt to shelter Serbia from the change which has swept the Soviet Union. The government of Serbia, under President Slobodan Milosevic, last week purged the media. Eleven editors were sacked and most remaining ones resigned in protest. The new media bosses excel in the art of propaganda. Mr Vojislav Micovic, the new director of Belgrade Radio, received his doctorate in the communist ideology of special media wars.

Commuters wait to board extra buses yesterday morning on Lexington Avenue which was closed to all other traffic

SUBWAY CRASH BRINGS HAVOC TO MANHATTAN

NEW YORKERS battled through grid-locked streets and pavements yesterday to get to work after one of the worst accidents on the city's subway system wreaked havoc with transport, but residents were loath to blame the transit authority for the crash, Karen Zagor reports from New York.

***A train jumped the tracks as it was* crossing from express to local lines shortly after midnight, killing six people and injuring 178.**

As local and national investigators started sifting through the rubble yesterday, the cause of the accident was far from clear. Some passengers said they heard an explosion, others said the train was going too fast before it passed two stations and then crashed.

Transit police found a vial of "crack" cocaine in the cabin of the train driver, who disappeared and was later found at home. Investigators will almost certainly try to find out why the train's automatic *shut-off system failed*.

In spite of the grime in many subway stations, the New York subway system is remarkably safe. About 20 trains derail each year, but there are few if any injuries and this is the first serious derailment since December 1988, when 15 people were injured when a crowded train jumped the tracks.

Mr Gene Russianoff, a staff lawyer with the Straphangers Campaign, a consumer advocacy group, said: "Given the age of the system in general it has a very good safety record. Things could be improved, but safety is a priority."

Transit authorities said the Lexington *Avenue line on which the crash happened* had been overhauled in the last three to four years.

The discovery of a crack vial may lead to renewed calls for drug-testing for transit employees. For passengers, mugging and robbery is more of a worry than equipment.

Hong Kong inflation edges up

By Angus Foster in Hong Kong

HONG KONG'S inflation rate, which many businessmen now call their main headache, edged up again last month to 12.6 per cent from 12.3 per cent in June.

The increase was mainly due to higher food prices in the wake of China's floods. The rise comes less than a week after the HK government raised its inflation forecast for the year by 1 percentage point to 12 per cent.

The government said yesterday's increase is temporary, and claims inflation is on a downward trend, compared to April's peak of 13.9 per cent. It hopes for a sustained fall in inflation later in the year.

But businessmen fear that high inflation, coupled with a low unemployment rate and rising wage demands, is undermining competitiveness. The problem is urgent, they say because inflation is expected to rise again as spending gets under way from 1993 on Hong Kong's new airport.

Inflation has also become an issue for Hong Kong's first *direct elections next month*, when popularly-elected politicians will for the first time have 18 out of 60 seats in the colony's ruling Legislative Council.

A package of anti-inflationary measures introduced by *the government in May has* been dismissed as stop-gap measures. Plans to widen the tax base by introducing a sales, or consumption, tax have also been strongly criticised as inflationary.

Inflation also appears partly *to blame for speculation in the* property market. Property prices have risen sharply this year, sometimes by over 20 per cent. With inflation so high, investing in property is one of the few ways to protect capital.

Cambodian peace talks bog down

Cambodian peace talks bogged down yesterday on the Phnom Penh government's renewed insistence that guarantees against "genocide" be included in a draft peace accord, Reuter reports from Pattaya, Thailand. Radical Khmer Rouge guerrillas objected to the contentious word alluding to their group's 1975-79 rule.

Phnom Penh, which earlier said it had dropped the issue, wanted the reference to genocide as a measure "to prevent dangerous accidents", not recall the past, Prince Norodom Sihanouk, chairman of the Supreme National Council (SNC), said.

China aids Burma

China has pledged modest development aid to Burma, the first it has received from a foreign government since the military leadership took power nearly three years ago, Chit Tun reports from Rangoon.

This follows a visit to China by Gen Saw Maung, chairman of Burma's State Law and Order Restoration Council, the army grouping which runs the country. Most western donors suspended their aid when the council took over.

Government success gives hope to Singapore's opposition

The ruling party is bound to win Saturday's election, but the other parties can take some comfort. Kevin Brown reports

SINGAPORE'S 1.7m voters go to the polls on Saturday knowing that the People's Action party (PAP), which has governed their island state since independence in 1965, will be in power for at least another five years.

The government has already won the election because the divided opposition parties were able to field candidates for only 40 seats – giving the PAP an automatic majority in the 81-seat parliament.

The opposition slate looks like a retreat from the last election in 1988, *when candidates stood against the* PAP in 70 seats and won one. Paradoxically, however, the weakness of the opposition parties may present them with their best prospects for years.

Mr Goh Chok Tong, the prime minister, called the election two *years early in search of electoral* approval for his appointment nine months ago to replace Mr Lee Kuan Yew, prime minister since independence.

Mr Goh has affected a more relaxed style than the robust Mr Lee, and has sought to demonstrate a more liberal approach by relaxing film censorship laws and proposing subsidies for education and medical care.

His aim is to reverse a downward trend in the PAP vote, which fell from 77 per cent in 1981 to 63 per cent in 1988. Success would strengthen his position, but failure could provoke a further government shake-up by Mr Lee, who remains party secretary-general and a senior cabinet minister.

The announcement of the election caught the opposition parties unprepared. Most have not even published *a manifesto for the 10-day campaign*. But the government's victory on nomination day has raised hopes in the two main opposition parties that a breakthrough may be imminent.

"We accept that the people of Singapore want the PAP to remain in power. But they already know that the PAP will form the next government, so people are free to vote for the opposition without fearing that they will be rejecting the PAP," says Mr Chiam See Tong, leader of the centrist Singapore Democratic party, and the sole opposition MP elected in 1988.

"We believe people want to see a strong opposition in parliament which is capable of keeping a check on the government. The PAP has a track record of governing Singapore without corruption and with some economic success. But the grouse of the people against the PAP is that it is too authoritarian and there is no remedy for harsh policies inflicted on individuals."

Mr J B Jayaretnam, leader of the centre-left Workers party, is unable to contest the election because he is banned from parliament until later this year following a conviction for mishandling party funds.

But he also thinks the government's early victory will help the opposition. "I don't agree that the Singapore people want the PAP to continue in government forever," he says. "I think there is a growing proportion of people who want a change of government, although it has not yet reached the level where we are threatening the government."

Both opposition leaders dismiss Mr Goh's claims to have liberalised Singapore, pointing to the continued use of the Internal Security Act to arrest political dissidents, and the lack of balance in the government-controlled media.

"There has been no change in Singapore. All Mr Goh has done is allow people to see more of women's bodies by bringing in R-rated [restricted] films," says Mr Jayaretnam.

Political analysts say there is no reason to believe voters are any more ready to accept the need for strong parliamentary opposition than in 1988, especially since neither Mr Jayaretnam nor Mr Francis Seow, a charismatic former SDP leader, are standing this time.

Nevertheless, the PAP has been sufficiently rattled by the opposition *strategy to* accuse some popular candidates of promoting or condoning tension between Singapore's Chinese majority and the Malay and Indian minorities.

The opposition, which claims the government is scaremongering, says this kind of campaigning *smacks of* a party which is beginning to lose its way. "Singapore is facing the same kind of problem as other countries which have a strong one-party state," says Mr Chiam.

"On the one hand they realise that they have to liberalise, but they also know that if they go too far they will lose political power. That is the dilemma the PAP faces."

Opposition leaders are forecasting that the government share of the vote will fall below 60 per cent for the first time, leading to the election of up to six opposition MPs.

Most commentators think a break*through on that scale unlikely. But* even one extra seat and 2 per cent off the government vote could be disastrous for Mr Goh. "If the PAP vote drops to 60 per cent, that is a defeat, and the writing would be on the wall for him," says Mr Bilveer Singh, senior political science lec*turer at the National* University of Singapore.

INTERNATIONAL NEWS

Israel seeks $10bn loan guarantees from US

By Hugh Carnegy in Jerusalem

ISRAEL is preparing to present next week its formal request for US government guarantees to back borrowing of $10bn needed to fund Soviet Jewish immigration to Israel.

The Israeli government, already the biggest recipient of US foreign aid, made public its call for the loan guarantees early this year.

But it agreed to delay formal application until after the US Labor Day holiday on Monday as a condition for emergency Gulf war aid from Washington.

Israel, which receives annual US grant aid of $3bn, topped up this year by some $700m towards Gulf war costs, says it needs the loan guarantees urgently to help cover the $50bn that Soviet immigration is expected to cost in the first half of the decade. The guarantees would allow Israel to borrow at more favourable rates than otherwise.

The government has also approached several European countries, notably Germany, with requests for similar financial assistance.

The Bush administration has reacted coolly, at times signalling it would tie approval to concessions by Israel on Arab-Israeli peace efforts. It has been angered by Israel's continued defiance of US calls to stop building Jewish settlements in the occupied territories while simultaneously calling for more aid.

The Israelis are hoping traditionally strong political backing in Congress will ensure the loan guarantees go through. But they are worried that both the administration and Congress might attach strings.

The latest concern is over what proportion of the guarantees the administration will set aside in the budget against an Israeli default. Although the guarantees do not involve payment of US government cash for Israel, a budgetary provision has to be made.

Reports from Washington suggest the provision could be as high as 8 per cent of the value of the guarantees, about four times what Israel says is sufficient. Such a high "scoring" would mean a higher cost to taxpayers, making congressional resistance more likely.

King Hussein in London visit

By Mark Nicholson

KING Hussein of Jordan arrived in London yesterday and is expected to hold talks with Mr Douglas Hurd, the foreign secretary, to sustain the momentum towards holding a Middle East peace conference.

The King's visit to London, where he is expected to stay at least a week, follows talks in Vienna earlier this week with Mr Kurt Waldheim, the Austrian president, and weekend discussions in Amman with Mr Yassir Arafat, chairman of the Palestine Liberation Organisation (PLO).

Although Jordanian officials stressed that King Hussein is visiting London privately and essentially to rest, he is keen to meet Mr Hurd to discuss the mechanics of a Middle East conference.

However, British officials said that no meeting had so far been arranged.

Jordan has offered to form a joint delegation with the PLO for a peace conference. The Palestinians are deferring a decision on this until a meeting next month of the Palestine National Council, the organisation's supreme policy-making body.

Mr Tahir al-Masri, Jordan's Palestinian-born prime minister, who is due to join King Hussein in London this week, said yesterday that a committee had been formed in Amman to discuss ways of representing Palestinians at a peace conference.However, Mr Yitzhak Shamir, Israeli premier, said yesterday during a visit to Bulgaria he believed a conference could proceed without any Palestinian representation.

King Hussein: keen to meet Douglas Hurd

N Korean GNP shows first fall

NORTH KOREA'S economy shrank for the first time in 1990, by 3.75 per cent, and is likely to suffer this year, a South Korean government report said yesterday, AP-DJ reports from Seoul.

The National Unification Board, which handles inter-Korea affairs, said North Korea's gross national product was estimated at $23.1bn in 1990, down from $24bn in 1989. GNP measures the total output of a nation's goods and services.

The north's per capita income also declined, to $1,064 in 1990 from $1,123 a year earlier.

The report blamed the setback on low productivity, outdated facilities, power shortage and sluggish trade. The north's trade stood at $4.64bn in 1990, down 4 per cent from 1989.

North Korea's 1990 trade deficit was $600m but its total external debts rose to $7.86bn from $6.78bn previously.

Japanese police arrest four over arms exports

POLICE investigating a Japanese electronics company which has admitted illegally shipping missile parts to Iran yesterday arrested four of the group's top executives, writes Stefan Wagstyl in Tokyo.

Charges are expected to be laid soon in the case which concerns components supplied during the Iran-Iraq war by Japan Aviation Industry Electronics Company, a maker of aero navigation systems and a 50.2 per cent-owned subsidiary of NEC, the electronics group.

The case, the first instance of criminal proceedings being started over an allegedly illegal arms export, has embarrassed the Japanese government which has a long-standing ban on arms exports.

The four men arrested are Mr Yukio Kaito, the company's former president, two directors and the head of the company's aerospace electronic equipment department. Police said the components were supplied to Iran via Aero Systems Pte, a Singapore subsidiary of Aero Systems Inc, an aerospace sales company based in Florida. The sales involved 1,500 flywheels worth Y35m ($255,000) and took place in 1988 and 1989.

The men are alleged to have infringed Japan's foreign exchange and trade laws by falsely labelling the goods.

EC reconsiders photocopier duties

THE European Community could drop or cut anti-dumping duties put on a range of Japanese photocopiers in 1987, an EC official said, Reuter reports from Brussels. Leading makers hit by 20 per cent duties include Canon, Sharp, Fuji Electric, Matsushita Electric Industrial, Minolta Camera, Ricoh, and Sanyo Electric.

Unless companies have a strong case for duties to continue, they will lapse in six months.

Gadaffi turns his pipedream into reality

COLONEL Muammer Gadaffi, the Libyan leader, celebrated the realisation of a dream yesterday; a vast and sophisticated pipeline with a subterranean network of arteries bringing water from beneath the Sahara to fields along the coastal strip, AP reports from Benghazi, Libya.

Arab and African heads of state – including President Hosni Mubarak of Egypt and King Hassan of Morocco – joined hundreds of foreign diplomats and official delegations at a ceremony to mark the achievement.

Even critics of the project are awed by the engineering and technology required to bring 2m cu meters of water a day through about 2,000 km of pipeline linking Benghazi and Sirte with 270 wells in east-central Libya.

But they regard the dream as a monument to vanity that makes little economic sense in a country where the UN Development Programme says 94.6 per cent of territory is desert wasteland.

Libya believes the aquifer feeding the pipeline will last 50 years. But critics say no one knows for sure and that there has been no adequate evaluation of the environmental impact.

Col Gadaffi inaugurated the pipeline project in August 1984. It has taken seven years and about $5bn to finish the first of five planned phases. Completing the project will cost an estimated $20bn-$25bn more.

But Mr Angus Henley, who monitors Libyan affairs for the London-based Middle East Economic Digest, noted that for $5bn the Libyans could have built up to five desalination plants producing nearly 4m litres of water a day each.

The pipeline was "Gadaffi's pet project. He wants to be seen as something other than the scourge of the west," Mr Henley added.

Sanctions and the evidence of what an even more severe embargo have wrought in Iraq have heightened the Libyan leader's drive to make his nation self-sufficient in food and strategic industries.

But even with the pipeline, food self-sufficiency seems impossible in a country where food accounts for 20 per cent of all imports, where less than 20 per cent of the population works in agriculture and where only 1.4 per cent of the land is arable.

The first phase of the project is designed to satisfy the domestic and industrial thirst of Benghazi and Sirte, along with agricultural needs. But Libyan officials have said about 80 per cent of the water will be used to irrigate old farms and on efforts to reclaim the desert.

Roughly 80 per cent of the country's agricultural production is in the coastal regions. However, water in coastal aquifers is becoming more saline and levels are not being replenished quickly enough.

Africa 'faces an unrelenting crisis'

By Michael Holman, Africa Editor

AFRICA faces "an unrelenting crisis of tragic proportions" without substantial extra support for the continent's economic reforms, Mr Javier Pérez de Cuéllar, UN secretary-general, warned yesterday.

Economic and social conditions "actually worsened" over the past five years, despite a recovery programme launched by the UN in 1986, Mr Pérez de Cuéllar says in a foreword to a 34-page report to be debated at the UN during a two-week session starting next Tuesday. Only a global pact between the international community pledged to increase assistance, and African states committed to continued implementation of economic reforms, will overcome "the greatest development challenge of our time."

The UN study is not likely to go unchallenged. Recent assessments by the World Bank, the leading supporter of structural adjustment in Africa, see signs of recovery in those countries implementing reform programmes. Western governments may ask why the report makes only passing reference to high military spending in Africa, and says little about linkage between "good government" and aid levels, a concept playing an increasingly important part in the west's development strategy.

The report, critical of what it sees as an inadequate western response to the African development strategy drawn up at the 1986 UN special session, seeks at least $30bn in net official development assistance (ODA) in 1992, in addition to external debt relief. It urges an extra 4 per cent ODA a year until the year 2000 to sustain an annual 6 per cent growth over that period in sub-Saharan Africa.

According to the report, real net resource flows to Africa fell between 1986 and 1987. Measured in 1986 prices and exchange rates, net flows fell from $24.6bn to $23.3bn. The 6 per cent growth target, the report notes, would double per capita income in sub-Saharan Africa, currently about $350, by the year 2015.

The UN study paints an almost unremittingly bleak picture of economic developments in Africa since 1986. Real GDP grew by an average 2.3 per cent during 1986-90. "Drought, political instability, civil strife, military conflicts and, often, less than effective policies to mobilise and utilise domestic resources continued to be the cause and consequence of the poor economic performance of most countries." The problems were exacerbated by reduced export prices and higher import costs, and a "crippling" debt-servicing burden coupled with "entirely inadequate net resource flows".

Insecurity caused "a tremendous amount of capital flight", nearly $30bn for 1986-90, the report estimates. Africa's external debt rose from $212.2bn in 1986 to $271.9bn in 1990, with sub-Saharan African debt increasing from $103.6bn to $147.9bn over the period. "It is simply not possible for African countries to develop" under the burden of servicing this debt, the report says.

It proposes cancelling official bilateral debt, including export credits, and reducing debt owed to multilateral institutions, which accounts for nearly 40 per cent of sub-Saharan Africa's debt servicing obligations.

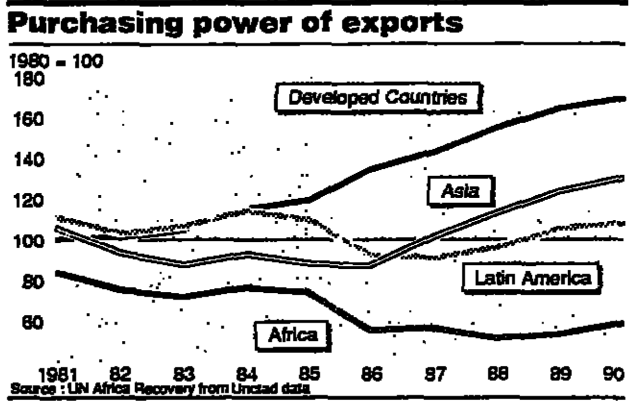
Many African countries have taken steps to curb population growth, but the continent's population growth of 3.1 per cent a year outstripped increases in food production. By 1989, "the value of food imports purchased was more or less at its 1981 level". Between 1986 and 1990, African agricultural production grew 3 per cent a year, but on a per capita basis, "Africa recorded an annual decline of 1.7 per cent over the period".

In calling for new efforts to stabilise commodity prices, especially coffee and cocoa, and improved access to international markets, the report points out that the continent's terms of trade declined markedly since 1986. "While the volume index of exports increased by 7.5 per cent, the unit value index dropped 23.2 points." At the same time, the unit value of Africa's imports rose nearly 13.9 per cent. More bleak statistics pepper the report.

The under-five mortality rate is 182 per 1,000, the world's highest. Africa's brain drain continues, with 50,000-60,000 middle- and high-level managers thought to have emigrated over the five years. Intra-African trade "remained marginal" at about 6 per cent of total African trade. Afforestation is replacing, on average, less than 7 per cent of trees felled. Those living in absolute poverty have risen from 270m in 1986 to 335m in 1990, "representing 52 per cent of the African population."

The report proposes the creation, under the UN aegis, of a committee equally comprised of African and non-African members, to oversee "a new compact for African development in the 1990s". Failure of such a compact, warns the report, would see Africa "continue in stagnation and despair, with repercussions for the entire world".

Purchasing power of exports



Source : UN Africa Recovery from Unctad data

Mr Javier Perez de Cuellar said yesterday he would not seek a new term as United Nations secretary-general, Reuter reports from Geneva.

His successor will be chosen during the UN General Assembly starting on September 17, but no clear front-runner has emerged. He succeeded Austria's Kurt Waldheim in January 1982 to become the world organisation's fifth chief.

He has often said he would not stand for another term but diplomats in New York and Geneva think he might still run for at least part of a third term.

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ECONOMY

Slow, hesitant recovery is predicted by institute

By Rachel Johnson, Economics Staff

THE UK RECESSION appears to tailing off into a slow and hesitant recovery, according to an independent think-tank.

However, the National Institute of Economic and Social Research is cautious about the extent, strength and timing of the eventual upturn.

If one comes at all, the turning point in the cycle will be in the second quarter of next year, the institute predicts in its latest review of the domestic economy.

"A rapid recovery next year is quite possible, but so is a year of no growth at all," it says, in one of its characteristically-downbeat quarterly appraisals of the economy.

Its review supports last week's forecast from the Confederation of British Industry, which claimed that a statistical upturn was due later this year, and the Bank of England's conclusion that the economy was "bumping along the bottom." It warns, however, that the margin of forecasting error is widest as the economy moves out of recession.

With German interest rates not much lower than UK rates – which have dropped 4 percentage points since Britain joined the European exchange rate mechanism – there is little room for more cuts.

With the recession now not expected to intensify, the institute expects just a one point reduction in interest rates next year, even though "the aftermath of the recession will be with us for most of next year."

Although output will be rising – by 1.7 per cent next year, after a 2 per cent fall this year – so will unemployment, to 2.8m by the fourth quarter.

The institute also agrees with the CBI that an overall rise in gross domestic product next year – bringing the recession to a technical end – will not prevent trading conditions worsening in many sectors.

"Bankruptcies, repossession and bad debts will remain at very high levels," it says. Industries with good export opportunities will return to relative prosperity, but those dependent on building or fixed investment will see conditions worsen.

In the medium term, there will be a reduction in the inflation rate to about 4 per cent. Over the next few years, however, UK inflation will have to undercut Germany's for competitive reasons, requiring a UK unemployment rate a "good deal higher than Germany's for the foreseeable future."

It also envisages a return to large-scale public-sector borrowing as taxation revenues lag behind company profits and benefit payments escalate with unemployment.

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Growth rates 'will return to average'

THE WORLD'S leading economies will return to average growth rates over the next 12 months, the National Institute of Economic and Social Research predicted yesterday writes Rachel Johnson.

In its latest quarterly review of the world economy, the institute suggests that in the last 12 months, economies had been "out of phase." There had been recessions in the UK, US and Canada – leading to falling interest rates – while Japan and Germany had continued to have strong growth.

The other main European economies had also largely avoided recession. But the restraints imposed by membership of the European Exchange Rate Mechanism (ERM) had resulted in slower growth, a consequence of the strength of the D-Mark and high German interest rates.

Neither Canada nor the US would have strong recoveries, but a revival in domestic demand should ensure that both economies grow by 2.5 per cent to 3 per cent in 1992. The institute foresees the US having to raise interest rates to curb accelerating inflation.

In Japan, tight monetary policy would ensure slower domestic demand in the second half of the year.

The institute suggested that the D-Mark was undervalued by between 5 and 15 per cent against other European currencies. "This misalignment cannot persist permanently, and if nominal exchange rates do not change then eventually relative price levels will adjust," it said.

French inflation would be lower than German for much of the next decade. The French path to monetary union with Germany would be smooth, as it would for the French, Dutch, Belgians, Danes and Austrians. The Italians, however, would be forced into one realignment before union.

Policy advice could avoid errors

By Rachel Johnson

THE BOOM of the late 1980s and recession of the early 1990s have undermined the government's case for retaining an independent economic policy, according to the National Institute Economic Review.

In an analysis of the causes of the current recession and the chances of breaking the boom-bust cycle, the institute suggests an advisory council of economic experts to help the government avoid repeating the errors of the past 10 years.

It acknowledges that governments would be tempted to pack such a body with sympathisers, but argues that it could help the UK achieve stable growth before it ceded monetary and fiscal authority to Europe.

The analysis argues that the 1980s boom was not simply a consequence of the excessive lending which followed deregulation, which started in 1979 with the abolition of foreign exchange controls.

This recession should turn out to be less severe than the 1974-1975 and 1980-1981 recessions – starting as it did with lower inflation and a higher level of unemployment than the previous two – but it has had an unprecedented impact in terms of insolvencies, bankruptcies and repossessions of mortgaged properties.

High levels of borrowing and the ensuing boom were "activated by over-optimism about the economy's performance". In the second half of the 1980s the borrowing requirement of industrial and commercial companies and the personal sector rose sharply.

Company borrowing rose to 81 per cent of income in 1989, from just 10 per cent in 1985. Personal sector borrowing rose to 9 per cent of income in 1987 from 5 per cent in 1985.

This revealed an increase in the extent to which the private sector was willing to incur debt as a "direct result of the climate of over-optimistic expectations" about the future performance of the economy.

The institute suggests this derived from misplaced confidence that the three main post-war economic problems – slow productivity growth, the sluggish response of output to demand, and the union-led push for higher wages – were on the way to being solved.

MOTOR INDUSTRY

Output rises 6.2% in first half as export sales grow

By Kevin Done, Motor Industry Correspondent

UK CAR output of 694,374 in the first half of the year was 6.2 per cent higher than in the corresponding period a year ago, helped in particular by a surge in output by Nissan, the Japanese car maker.

At the same time Ford, Vauxhall and Rover also achieved higher car output levels than a year earlier, as a significant rise in exports helped to compensate for the steep fall in demand in the domestic market.

Production for export markets accounted for 48.2 per cent of UK car output in the first six months this year, compared with only 23.6 per cent in the same period a year ago.

According to the Society of Motor Manufacturers and Traders the share of UK car production going to export has started to fall in June and July, however, which suggests overall output could weaken in the final months of the year.

The SMMT figures show production of 63,000 by Nissan at its Sunderland plant in north-east England in the first half of the year was 132 per cent higher than in the corresponding period a year earlier.

Production at the Nissan plant, the first Japanese car assembly operation in Europe, started in small volumes in 1986. It is now rising quickly and is expected to reach 120,000 in the whole of 1991 compared with 76,000 in 1990.

A further boost will be received next year when Nissan starts output of a second car range at the plant. The full capacity of 220,000 cars a year could be reached in 1993.

The build-up of car production by Nissan, as well as by Toyota and Honda, which are to start output late next year, is expected to guarantee a steady increase in UK car production throughout the 1990s.

The export programmes at Vauxhall (the UK subsidiary of General Motors) and Ford, which stem from changes in sourcing policy by GM and Ford's European operations, have helped to cushion their assembly plants at Luton and Ellesmere Port (Vauxhall) and Dagenham (Ford) from the impact of the recession.

By contrast Ford's Halewood, Merseyside plant, which produces cars for the domestic market only, has been hit hard by the steep fall in new car demand in the UK and is expected to work only a three-day week for the final four months of the year, having been on a four-day week for much of the first eight months.

The main casualties in the first half of the year were the luxury car makers Jaguar and Rolls-Royce Motor Cars, where output in the first half of the year plunged 43.7 per cent and 37.2 per cent respectively in the face of plummeting sales in both the UK and US markets.

Both companies have been forced to make substantial cuts in their workforces.

Peugeot Talbot, the UK subsidiary of Peugeot of France, has also been forced to cut output sharply in response to the recession in the UK and lower demand in other important markets including France.

Commercial vehicle output, which has been less cushioned by improved sales in export markets, fell 26.6 per cent in the first half of the year.

UK VEHICLE PRODUCTION

	1991 Jan-June	1990 Jan-June	1991/90 % Change
CARS			
Total	694,374	653,747	+6.2
Rover (British Aerospace)*	229,086	224,149	+2.2
– cars	208,141	199,951	+4.1
– Range Rover/Discovery	20,945	24,198	–13.4
Ford (excl. Jaguar)	196,005	176,389	+11.1
Vauxhall (General Motors)	142,547	130,957	+8.9
Nissan	62,929	27,147	+131.8
Peugeot	45,581	65,538	–30.5
Jaguar (Ford)	13,741	24,404	–43.7
Lotus (General Motors)	1,559	732	+113.0
Rolls-Royce (Vickers)	1,080	1,721	–37.2
COMMERCIAL VEHICLES			
Total	111,571	152,002	–26.6
Ford	58,550	70,127	–16.5
Rover (British Aerospace)**	14,014	21,150	–33.7
Leyland DAF (DAF)	16,147	18,724	–13.8
– vans	11,138	13,279	–16.1
– trucks	5,009	5,445	–8.0
IBC Vehicles (GM/Isuzu)††	10,479	17,262	–39.3
Vauxhall (General Motors)†	5,112	15,832	–67.7
Iveco-Ford	2,718	3,691	–26.4
ERF	983	1,223	–19.6
AWD	1,522	1,124	+35.4
Renault Truck Industries	534	704	–24.1
Seddon Atkinson (Iveco)	326	587	–44.5
Volvo Bus	462	492	–6.1

*Includes Range Rover/Discovery. **Car-derived vans and Land Rover Defender. †Car-derived vans. ††Medium and micro vans sold in Europe variously under Vauxhall, Isuzu, GME, Bedford and Suzuki names.

Source: Society of Motor Manufacturers and Traders

Holiday proposals meet with a rebuff

WORKERS hoping for an extra day off were disappointed yesterday as proposals for a new October bank holiday from the National Economic Development Council were swiftly rebuffed by the government. Such a holiday would, the government said, "damage industrial competitiveness".

It also said it had no plans to fix the date of the Easter bank holiday - another proposal.

The department of employment said industry had warned that an extra holiday would reduce productivity, and wanted the uninterrupted run between August and December to continue. The department's view was echoed by the Confederation of British Industry.

Neil Buckley reports

But the department conceded that it would "consider very carefully" moving one of the spring bank holidays to autumn, if other NEDC groups backed the proposals, made by the council's tourism and leisure group.

The government's reaction will disappoint the tourism and leisure industries - and may surprise people in Scotland.

While the the exact dates of many public holidays there are determined locally, Scottish towns have long had an autumn bank holiday in place of the late summer bank holiday in England and Wales.

Mr Ewan Marwick, chief executive of Glasgow's chamber of commerce, said the autumn holiday was no more damaging to industry than any other bank holiday.

"Public holidays tend to be less disruptive here than in England and Wales, because many of them happen on different days in different areas."

The government's reluctance may also surprise other European countries, which manage to remain competitive while having up to five more public holidays each year than the UK.

Belgium leads the way with 13½, followed by Spain, Portugal and Greece with 13, Luxembourg with 12, Germany, France, and Italy with 11. The UK has eight, one less than the Netherlands and Ireland. Even the Japanese have 13 official holidays.

Harmonisation of public holidays across Europe as the Single European Market approaches has not been seriously discussed, though the European Commission is carrying out a study into seasonality. Mr Peter Hunt, national secretary for the Council of Civil Service Unions, who presented NEDC's proposals yesterday, said other European countries might complain that the scarcity of public holidays in the UK gave it a competitive advantage.

Whatever else may be standardised, it seems unlikely that the era of the Euroholiday is approaching. VE day, for example, commemorating the end of World War II, is a holiday in Austria, France, Belgium and the Netherlands, but is never likely to be celebrated with great enthusiasm by Germany.

The many European countries that celebrate religious holidays such as Ascension Day, 40 days after Easter, and Assumption Day, on August 15, will also be unwilling to give them up.

The tourism and leisure industries in Britain are unlikely to abandon their campaign for an autumn bank holiday.

It would, they say, extend the holiday season and encourage people to take second holidays - most likely in the UK - at that time. The current excess of bank holidays in spring stops people making full use of them.

Tourism employs more than 1.5m people, and Britons spent more than £10.5bn on 95.5m tourist trips within the UK last year. The argument is that any loss of industrial output would be more than compensated for by increased earnings from tourism.

Proposals to fix the date of Easter emerge frequently, but the government's reaction will perhaps come as a relief even to those churches which said they were not against the idea in principle.

The Church of England said it would not support a move likely to damage its relations with other churches, and any decision to fix Easter would have to be agreed by all churches around the world.

The last attempt, at a World Council of Churches meeting in Nairobi in 1975, foundered due to opposition from the Russian Orthodox church.

The Easter Act of 1928 provides for a fixed Easter subject to certain conditions, but purists will always argue against changing a tradition that has persisted in Britain since the Synod of Whitby in 664 AD.

Taxman is made to eat his cake

By Tim Lawrence

THE British taxman has been made to eat cake. McVitie's yesterday won its battle against UK Customs and Excise when a value added tax tribunal ruled that the Jaffa Cake, a chocolate-covered, orange-filled sponge snack, is a cake, not a biscuit.

It won its case, in part, by submitting a giant Jaffa Cake – 12 inches in diameter – as evidence to the tribunal.

More than a name was at stake when Customs and Excise ruled in January that Jaffa is a biscuit, not a cake. The UK does not impose VAT on cakes, but the full 17.5 per cent is charged on chocolate biscuits and confectionery.

This would have put 10p on the price of a 60p packet, producing tax revenue of £7m from McVitie's annual sale of 42m packets and the 25m packets produced by its competitors.

A series of borderline test cases – including one in which Marks and Spencer's caramel shortcakes were categorised as cakes because they were packaged as such and sold alongside other cakes – persuaded VAT officials they could win the Jaffa case. Jaffa Cakes, the officials claimed, look like biscuits, are packaged like biscuits and are sold on biscuit shelves.

McVitie's, a subsidiary of United Biscuits, insisted that Jaffa, first baked in 1932 and named after the Israeli orange, is a cake: "It looks like one, it tastes like one and it's always been one. A biscuit, it isn't."

It added: "We said that size should be left out of the argument, but the cake-sized Jaffa showed the tribunal that the vast majority of a Jaffa Cake is sponge. There was absolutely no doubt it was a cake."

Mr D.C. Potter QC, chairman of the tribunal, concluded that the texture, ingredients and name of the product, as well as the fact it started off moist but went hard when stale - contrary to biscuit behaviour - meant that Jaffa Cakes should be classified as a cake.

Customs and Excise has 28 days to decide whether to lodge an appeal: "We are considering our position. We were disappointed to lose the ruling but we are taking the whole thing with a pinch of salt".

Mr John Newman, director of the Biscuit, Cake, Chocolate and Confectionery Alliance, a trade association, welcomed the ruling.

The giant Jaffa Cake which contributed to McVitie's success was "consumed with relish" after the hearing, according to Mr John Brown, VAT partner responsible for United Biscuits at Ernst & Young, the accounting firm. "Max Jaffa - the name we gave to the giant Jaffa Cake - was eaten by people from Ernst & Young, United Biscuits and the tribunal staff," said Mr Brown.

BRITISH ASSOCIATION

Ignoring patents costs £20bn

By Clive Cookson, Science Editor

EUROPEAN companies waste £20bn a year in unnecessary research "re-inventing what has been done before", because they ignore patent literature, the UK Patent Office has estimated.

Many UK and European companies overlook the value of patents as a source of technical and commercial information, Mr Ted Blake, Patent Office information director, told a symposium on intellectual property rights.

"Anyone not looking at patents automatically cuts themselves off from at least four-fifths of the available information," he said. "Patent literature is quite simply the largest and single most important source of technical information in the world, with over 80 per cent of the information in patents being unavailable elsewhere."

No European company in any industry can match the example of Hitachi, the Japanese electronics giant, which according to Mr Blake employs 150 people full-time to search the world's patent literature.

Many are put off by the sheer size of the database. There are now 32m patent documents worldwide, increasing by 1m a year. But relevant information can now be reached relatively easily by computerised searches.

Mr Lawrence Jenkins, patents manager for Wellcome, the UK drug company, pointed out that the chemical and pharmaceutical industries already make full use of the patent literature.

But Mr Blake said other UK industries such as engineering and electronics were not following the lead of chemicals and pharmaceuticals. And even chemical companies sometimes missed vital patent information.

Discoveries may transform medicine

TWO recent discoveries, catalytic enzymes and cell adhesion molecules, may transform medicine and biotechnology, the British Association heard, writes Clive Cookson.

Catalytic antibodies, also known as abzymes, are artificial antibodies which work like natural enzymes to make biochemical reactions possible. "New scientific opportunities such as this occur only rarely," said Prof Colin Suckling of Strathclyde University, who is one of the UK's pioneers in abzyme research.

In principle an abzyme can be designed to catalyse (speed up) any biochemical reaction whose mechanism is known, using genetic engineering and monoclonal antibody technology. The abzyme is a specialised version of the antibodies which the body's immune system makes to fight disease.

Prof Suckling said abzymes could be used not only to prepare new biochemicals for industrial and medical use but also directly inside the human body. "By use of an appropriate abzyme, it might be possible to treat diseases in which an enzyme is missing. It might also be possible to give a patient an abzyme to degrade a high concentration of a [chemical] that is causing disease; some targets in neural diseases have been recognised."

One speculative application, discussed at the time of the Gulf war, is to inoculate soldiers with an abzyme to destroy nerve gases in the bloodstream.

The UK is spending about £1m a year on abzyme research through the government's Link programme.

Prof Suckling's own work at Strathclyde has been financed by a £100,000 grant from Rhone-Poulenc, the French chemical group.

"Abzymes have great potential," Prof Suckling said. "However, although the science has been established, much remains to be done to reach successful application."

Uncrewed ship sails the seas

FLOTILLAS of unmanned computer-controlled ships may be sailing the oceans early next century writes Clive Cookson.

The Shiiya Merchant, an unmanned 10,000 tonne Japanese ore carrier, has recently completed two days of trials between south-western Japan and Korea, before returning to the port of Kagoshima.

"The vessel handled perfectly in the shallow rock-strewn channels, in a voyage that was planned and executed by on-board computers," said Mr Roland Burns, a lecturer in mechanical engineering.

"It is the view of Japanese marine technologists that computer control of unmanned ships is absolutely essential for the economic future of long-haul bulk shipping," he said.

"At least three major Japanese shipyards have designs for trans-Pacific computer controlled ships and tankers which could be operational by the mid 1990s."

There are two forces driving the unmanned ship project, Mr Burns said. One is economic. Large savings can be made if the crew is eliminated entirely.

The other is safety. According to Mr Burns, 80 per cent of collisions and accidents at sea are attributable to human error.

Offshore spending 'to peak at £8.6bn'

By James Buxton, Scottish Correspondent

THE high level of spending by the offshore oil industry in the UK's sector of the continental shelf is expected to peak next year at a record £8.6bn before going into a gentle decline to about £5.7bn by 1995.

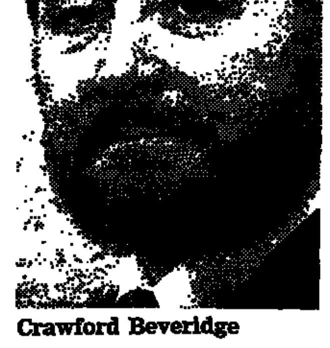
Spending on exploration, development and operations has risen from £5.8bn in 1989 to £8.4bn this year.

According to the latest biennial forecast by Scottish Enterprise, the Scottish economic development body, worldwide offshore expenditure will continue to grow in real terms, rising from £72bn this year to £83bn in 1995. The growth areas are south east Asia/Australasia and North America.

"If Scottish and UK companies wish to expand market share they will have to seek new business internationally," Mr Crawford Beveridge, chief executive of Scottish Enterprise, said.

The study shows that some 58 new fields will come onstream in the 1992-95 period. Although this means that more new fields are coming onstream than at any time in the North Sea's history, the majority are relatively small.

In addition a peak of 11 new subsea fields, which are connected up underwater, will come onstream in 1993. Altogether 30 new subsea fields should come onstream in 1992-95.



Crawford Beveridge

The study shows that real investment spending on new fields in the UK continental shelf, most of which is in the North Sea, is higher than it has been for ten years.

In 1990 exploration reached a new record level for the UK with 214 exploration and appraisal wells drilled, exceeding the previous peak of 175 wells in 1989. Some 190 wells are expected to be drilled this year, with the number declining to about 170 by 1995.

BRITAIN IN BRIEF

MoD cuts order for Warrior

The Ministry of Defence is to reduce its order for Warrior combat vehicles from the GKN engineering group to reflect the planned cuts in the army.

The original order for more than 1,000 Warriors, worth more than £1bn, is due to be cut by between 10 per cent and one third. The revision of the contract follows a slowdown in delivery schedules for the Warrior, negotiated last year as part of short term cost-cutting at the MoD. GKN, which makes the vehicle at its Telford plant in Shropshire, has been asked to submit proposals for various production totals. The change raises the possibility of redundancies at the plant.

BT unions accept offer

BT engineers and clerical staff belonging to the National Communications Union have voted overwhelmingly to accept a 7.3 per cent pay offer. The deal covers about 120,000 employees and will be backdated to July 1.

Schools still lack teachers

Schools are still suffering severe problems in recruiting suitable teachers, according to a Labour Party survey of 30 local education authorities. Almost 90 per cent of local authorities reported "difficulties in recruiting and retaining" teachers in modern languages, 47 per cent in sciences, 38 per cent in maths and 30 per cent in English.

Holiday price war forecast

Thomson Holidays, Britain's biggest package tour operator, has warned of a new price war over the sale of next summer's holidays. The company said that it "would not be beaten on price" if any of its competitors tried to attack its market share, currently about a third of all package holidays sold.

Training plans 'jeopardised'

The contractual relationship between Britain's leading providers and purchasers of training are unsatisfactory and will jeopardise achievement of the government's objectives to improve vocational training, a report claims.

The Bridge Group of 15 not-for-profit organisations involved in training criticises contracts between providers of training and the 82 Training and Enterprise Councils in England and Wales and 22 Local Enterprise Companies in Scotland. It identifies the short duration of contracts and clauses in contracts allowing TECs and LECs to terminate contracts early without fault.

Pay offer is revised

Parcelforce, the parcels division of the Post Office, which initially attempted to freeze pay for all employees for 10 months as part of a plan to pull itself back into profit, has put forward a new 18-month pay offer to union negotiators. The offer has been rejected by the main union, the Union of Communication Workers. Both sides are due to meet for informal talks during next week's Trades Union Congress in Glasgow.

Paddy Ashdown (pictured above), Liberal Democrats leader, at the launch of an initiative on constitutional reform. He argued that reform is a necessary precondition for improvements in areas such as economic, education and environment policies.

Investment at six month low

Investment by small business is at its lowest level for six years, according to figures published by National Westminster. The bank said spending fell 39 per cent in the first half compared with the last six months of 1990. The worst hit regions were south-west and south-east England.

Row over panel appointee

A political row was sparked by the announcement that Dr Madsen Pirie, the director of the Adam Smith Institute, a right-wing think-tank, would be a panel member of government advisers on the Citizen's Charter.

The panel's task is to maintain the impetus behind the planned reforms and to bring outside expertise to bear on proposed ideas and develop new applications of the charter's principles.

Mr Roy Hattersley, Labour's deputy leader, said the appointment of Dr Pirie by Mr John Major, the prime minister, "does not inspire confidence in the government's wish to protect the consumer against exploitation by either public or private providers of goods and services."

MANAGEMENT: Marketing and Advertising

Seriously stuck on designer horns

Alice Rawsthorn reports on the dilemma facing an industry damaged by recession and over-ambition

"THE DESIGN business is too unstable to support huge networks with high overheads," says Mark Landini, joint managing director of RSCG:Conran in London. "In the 1980s people were far too ambitious."

"This is a very young industry," says Don Casey, president of Landor. "There are very few people around with sufficient skill and experience to work on an international scale."

Between them, Landini and Casey sum up the dilemma facing the international design industry.

There are more and more multinational design projects around but there are very few consultancies capable of handling them. Almost all attempts at creating global *design groups have failed*. And, after two years of recession, the US and UK design consultancies cannot afford to expand.

"At the moment there is a hiatus," says Colin Forbes, a partner of Pentagram in New York. "The industry has to organise itself so that it can handle international projects. *But no one knows how to go* about it."

In the 1980s the consensus among design groups was that they should model themselves on the multinational advertising agencies, such as Saatchi *& Saatchi* or *Young & Rubicam*, which owned offices in most, if not all, the countries where their clients operated. The larger consultancies threw themselves into *start-ups and* acquisitions in an attempt to replicate the structures of the ad agencies.

It was relatively easy for them to raise capital. In London, the stock market was *keen to invest in young, entre*preneurial design businesses like Fitch-RS and Michael Peters.

The global marketing groups, such as Saatchi and the WPP Group, also invested *in design*, convinced they could cross-refer accounts from their advertising agencies to their new design subsidiaries.

By the end of the decade the design industry seemed to be on the brink of fulfilling its global ambitions. Then came the recession. The US and UK design markets went into the *doldrums. The consultancies* in those countries can no longer count on the profits from their domestic markets to fund their fledgling international networks.

The industry has been ravaged by cuts and closures. Michael Peters has gone into receivership. Fitch-RS has serious financial problems. Landor, the San Francisco-based *consultancy, sold out to Young* & Rubicam. Conran Design in London has been bought by RSCG, the French marketing group. Other companies have been forced to shed staff and close offices.

But recession is not the only problem. The immaturity of the business had hindered its attempts at globalisation. Management structures, even of the larger consultancies, were too unsophisticated to cope with the pressures of operating as international companies. There was also a serious shortage of staff capa*ble of working on interna*tional design projects.

Another problem lies in the cyclical nature of the design market. Whereas ad agencies – which the design industry had chosen for its role model – tend to work on large, long-term projects, design schemes are smaller in scale and commissioned on an *ad hoc* basis.

This means there is no flow of revenue and, when economic conditions deteriorate, the market becomes very volatile.

WORLD'S TEN BIGGEST DESIGN GROUPS 1990

Company	Fee income	Ownership
WPP Group	£56m	Public company, UK
Landor	£30m	Young & Rubicam, US
Fitch-RS	£26m	Public company, UK
Addison	£14m	Private company, UK
Siegel & Gale	£12m	Saatchi & Saatchi, UK
RSCG:Conran	£11m	*RSCG, France*
Holmes & Marchant	£11m	Public company, UK
Minale Tattersfield	£10m	Private company, UK
Desgrippes Cato Gobbé	£9m	Private company, France
Pentagram	£9m	Private company, UK/US

It can also be argued that the culture of the design business is not compatible with that of sprawling, multina*tional organisations*. Colin Forbes of Pentagram is convinced that a design consultancy works best with no more than 60 staff. Beyond that, he says, it runs the risk of "losing its *esprit de corps*" and of "becoming unmanageable".

It is instructive that Pentagram, which pursued this cautious policy even during the bullish era of the 1980s, *is one of the few consultancies* to have been unscathed by the recession.

The design industry has now lost its illusions about modelling itself on advertising. As with most sectors, the recession has also taken its toll on the multinational ad agencies; and *the financial crises at* Saatchi and WPP have served to destabilise the design companies they had bought.

Second, there is a crisis of confidence among the ad agencies themselves. Advertising lost its traditional role as the dominant marketing medium during the 1980s. The agencies are desperately trying to *restructure their businesses to* take account of this – so far without much success.

Finally, hopes that the global marketing groups could cross-refer accounts from one subsidiary to another have proved unfounded. "The power *of the agencies is diminish*ing," says Alan Siegel, chairman of Siegel & Gale, the New York-based corporate identity consultancy owned by Saatchi. "They do not have enough influence over their clients to tell them where to place accounts. All the Saatchi companies are left to live or die on their own."

So where does the design industry go from here? Recession or no recession, the demand for international projects is still strong and the design consultancies are still intent on operating globally. *However, they have been* forced to scale down their ambitions.

Most consultancies have abandoned the original aim of owning worldwide networks. Siegel & Gale once planned to operate full service offices – with design studios as well as sales departments – in most of the major countries. It now *envisages a more modest oper*ation of three main bases in New York, London and Tokyo with a handful of small sales offices.

Others are adopting a similar approach. Two years ago Walker/CNI, the New York retail design business owned by WPP, opened a London office to co-ordinate its European work. It now has a token presence in London and services European clients from New York.

Wolff Olins, the London-based corporate identity business, has closed the San Francisco office from which it had hoped to expand *into the US*. "We have lowered our sights," says Wally Olins, the chairman. "Our resources are limited. In the short term we will concentrate on Europe."

Consultancies are also less ambitious about the scope of their work. Once they aimed to handle every aspect of their international projects from developing the original concept to implementing the finished design. Now they realise they cannot afford the infrastructure needed to work on such a scale. Increasingly they are collaborating with other *companies in different coun*tries.

"It is ludicrous to suppose that one design consultancy can fully satisfy a global client on its own," says Martin Beck, chief executive of Fitch-RS. "Now we look for people who know their own markets and work with them on a tactical basis."

However, there are structural changes in the design *market* that are helping consultancies to execute multinational projects without recourse to huge networks.

One consequence *of the* recession has been to increase the pool of freelance designers, researchers and corporate strategists that consultancies can draw on. Even a large group like Landor now uses freelances on a *regular basis*.

At the same time advances in computerisation – in both information technology and computer-aided design – are making it easier for consultancies to liaise with interna*tional clients and collabora*tors. There are now networks of designers working simultaneously on the same projects in different countries.

These developments may help the design community to *resolve the dilemma* of how to turn itself into a fully-fledged international industry without over-stretching its resources, albeit more slowly and more modestly than it once envisaged.

"Design has always been a 'mom'n'pop' business," says Alan Siegel. "If design firms are ever to become big and stay big, they must take a longer term view."

Philip Rawstorne reports on Bayer's plans for pepping up Alka -Seltzer

Putting more fizz into a mature market

Despite the trend to healthier lifestyles, a third of British households keep a remedy for an upset stomach or hangover in the cupboard.

Tried and trusted brands – Sterling Health's Andrews, Bayer's Alka-Seltzer, and SmithKline Beecham's Eno's – dominate this sector of the self-medication market.

Alka-Seltzer, now vying with *Andrews for leadership of the* £16m a year UK market for effervescents, is 60 years old. It has stood the test of time; worldwide, more than 2.5bn tablets are swallowed each year.

But Bayer, the German-based multinational which acquired Alka-Seltzer when it bought Miles Laboratories of the US in 1978, recognised last year that without continuing care the brand would slowly *wither away in the UK*.

Alka-Seltzer's peak in the UK was in the late 1950s and early 1960s. Though sales were still double those of any other European country, they had been slowly declining and, with new brands coming on to the market, the product's relevance to modern consumers had to be reasserted.

Alka-Seltzer still enjoyed a strong position in its market, *with a 36 per cent share. But* Bayer, Europe's fifth largest manufacturer of self-medication products, had a relatively weak position in the UK industry.

The priority for Michael *O'Kane, a one-time Boots phar*macist, appointed marketing manager for Bayer UK's self-medication products in January last year, was to improve sales and distribution support for Alka-Seltzer.

A stronger presence was needed in all trade sectors from pharmacies through to supermarket chains and independent stores. Various options were considered from the acquisition of suitable com*panies and/or brands that* would give Bayer the critical mass needed to develop its own distribution network, to identifying possible partners who were already established in the market place.

The problem was resolved last month by a sales and distribution agreement with Warner Lambert Healthcare, a competitor in some world mar*kets but not in the UK*.

While that partnership – which will ensure distribution to all pharmacies and 94 per cent of grocery outlets – was being planned, O'Kane was also working on ideas to put *more fizz into the Alka-Seltzer* brand.

The mixture of Aspirin, citric acid and sodium bicarbonate was originally developed as a remedy for colds and influenza but had been gradually *repositioned as "a fast relief* from headache with upset stomach".

Its competitors had developed line extensions – Andrews Answer and Eno's Resolve – as specific hangover remedies. Resolve, in particular, had done well and had captured 11 per cent of the market.

Apart from the introduction of a lemon flavour in 1988, little else had been done to rejuvenate the Alka-Seltzer brand."It had suffered historically from a 'leave well alone' approach," says O'Kane. "But a brand is like a plant, it needs *continuing care and attention* if it is to thrive."

O'Kane has given a brighter, modern look to the packaging, to provide more noticeable presentation on supermarket shelves. The original product and its lemon-flavoured variant are now distinguished by different colours; product and dosage information is more prominently displayed.

Television advertising strategy was changed in an effort to increase sales – which peak at Christmas and New Year – throughout the year.

"The focus had been on 30-second commercials during the Christmas period," says O'Kane. "Our competitors advertised at the same time, so we could not stand out from the crowd as much as we would have liked."

Sales of Alka-Seltzer rise *substantially on Spain's Costa* del Sol with the annual influx of British holidaymakers. So its sales pitch – "Good food, good wine, good night, good morning" – was focused on the holiday market.

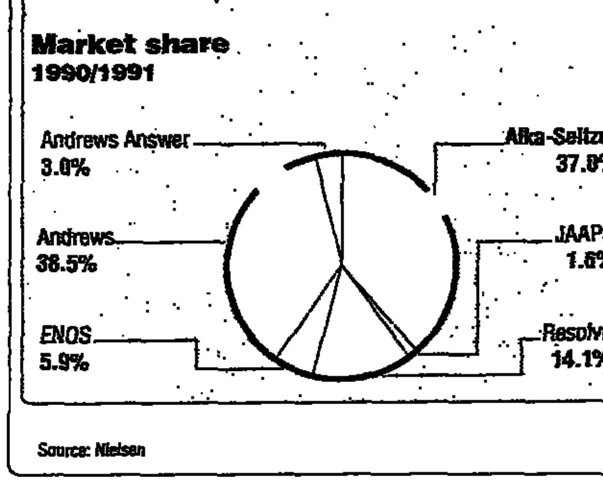
Much of the £1.1m advertising budget was spent on new 10-second television spots – featuring the lemon variant in particular – during the summer. The message to consumers preparing for their holidays was that they would need Alka-Seltzer just as much as a passport.

An Alka-Seltzer holiday kit – including bandages, insect repellent and antiseptic cream as well as Alka-Seltzer tablets – was promoted through regional newspapers.

Further promotions during the next few months will link Alka-Seltzer to winter holi*days*. "We want to develop the idea that you should never be caught without Alka-Seltzer," says O'Kane.

Within a year, the gap between Alka-Seltzer and the market leader, Andrews has been *narrowed from* 4.4 per cent to 1.5 per cent.

"Alka-Seltzer has been around for a long time," says O'Kane,"but I think we are proving that there's a lot of life left in it yet."



Source: Nielsen

TECHNOLOGY

A longterm use for ground glass

LANDFILL sites have to be carefully isolated to prevent methane and other toxic substances from contaminating surrounding ground long after the sites have been abandoned.

The usual method of containment is to surround the site with vertical cut-off walls of bentonite (a highly expensive, fine-grade clay mineral), slurry and a plastic membrane.

Concerned about the long-term effectiveness of this method, German civil engineering contractor Philip Holsmann has joined forces with *glassmaker Flachglas to* develop a new means of encapsulation, using glass sheeting.

"Glass is resistant to chemical attack from all possible components of seepage water as well *as being totally* impermeable," says Heinz Wind, head of Philip Holsmann.

The panels of 6-12mm-thick glass are set into the mineral slurry trenches. A non-shrinking silica gel, which is said to be the most impermeable sealant for the glass sheets because of its similar chemical composition, is injected into the remaining gaps.

The construction of the glass walls, claims Wind, can be calculated to withstand the lateral forces exerted by the settling of waste in a working tip. And, although the settlement forces in old deposits are usually insignificant, walls capable of bearing the transverse forces exerted by further loading can also be designed, a useful factor in view of the scarcity of suitable new landfill sites.

In 1990, Philip Holsmann and Flachglas, together with the technical universities of Darmstadt and Aachen, established the German Institute for Constructional Glass in a bid to develop the use of glass for construction purposes.

This project is one of several *it now has under* way in Germany. Others include using curved glass segments for relining sewers and suspending particles of asbestos in glass as a means of safe disposal.

Fiona McWilliam

Charles Leadbeater studies the Prince of Wales's latest strictures on UK industry

Too far from the campus

IF you are a manager in a *British manufacturing* company who has quietly chuckled as the Prince of Wales has lambasted the architects and educationalists, you had better watch out.

The Prince is set to renew *his more than passing acquain*tance with controversy by setting about industrialists and academics. Earlier this year a prestigious conference held in the grounds of his home at Highgrove, Gloucestershire, *was the launch pad for an ini*tiative called Partners In Innovation. Its aim is to improve links between education and *industry. Specifically* the Prince asked Sir John Flowers, the chairman of the Centre for the Exploitation of Science and Technology, to set up and chair a working group which will report to him in December *upon measures to* improve the relationship between academics and industry. Partners in Innovation is based upon three premises. The first two premises are uncontroversial pieces of conventional wisdom. First, the relationship between higher education and industry can be improved. Second, industry needs to become more proficient at innovation.

It is the third premise which is more open to doubt: industry will become better at innovation if it improves its relationship with higher education. It is upon this premise that the Prince's initiative will stand or fall.

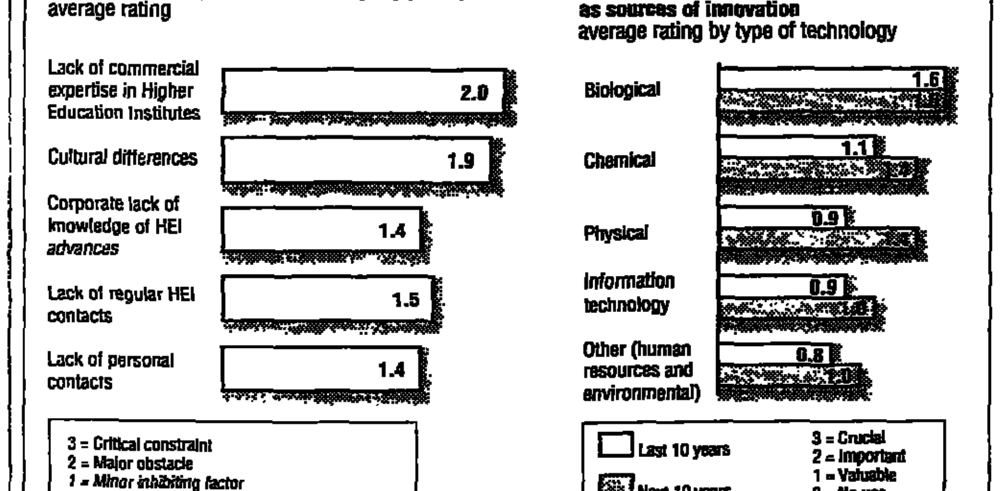
What evidence is there that better collaboration between academe and industry is really central to promoting business innovation?

After all It is not as if all successful economies have well developed programmes to pull together universities and companies. In Japan, the public higher education sector and the corporate sector do little together in terms of innova*tion*.

Moreover, a survey of 80 companies and 90 academics conducted by management consultants McKinsey for the Partners in Innovation initiative suggests that other factors may be more significant.

For instance, the companies clearly ranked their own research and development as the most important source of innovation.

On a scale ranging from three for a crucial source to zero for no use at all, internal R&D ranked 2.3, compared with 1.7 for innovations which *come* from suppliers and contractors and 1.3 for British higher education institutes.



Source: McKinsey

On the face of it the survey suggests the Prince may be tilting at windmills. A lot of effort might be devoted to improving something which most executives judged is not essential.

However there are two rejoinders. First, the survey shows that in most sectors links between industry and education are likely to become more important, at a quicker rate than other factors. The survey found that 73 per cent of companies would be using higher education institutes as a source of innovation in the future. About 16 per cent *expect these institutes to be a* crucial source of innovation in the future. So the Prince is focusing on something that is becoming more significant.

Second, the *fact* that executives do not regard higher education as an important source of innovative *ideas* and products may be the symptom of a problem rather than proof that no problem exists. *The rela*tively low ranking that executives ascribe to collaboration may just be a sign of how much it needs to be improved.

Links between companies and higher education may be undervalued because companies are failing to exploit fully the ideas available in universities and the academics are so bad at selling their work. The corollary is that once academics and industrialists start to work *together more effectively* they will realise the potential for collaboration.

Prince Charles: new target

According to the executives *cultural differences between* business and academe are the most important obstacles to collaboration. Lack of commercial expertise in higher education was ranked as a major obstacle. And academics certainly *seem to have non com*mercial priorities: the survey found that 53 per cent of university academics thought commercialising innovation through collaboration was less important than publishing their research.

All this is grist to the Prince's mill that academics and business leaders need to understand one another better. However there are other findings in the McKinsey survey which suggest the Prince will inevitably be drawn into the clearly political territory of education and science policy.

Although the academics thought that cultural differences were significant they cited a lack of development *funding as the most important* obstacle to innovation. As a result academics view collaboration with business as a useful source of funding to top up a shortfall of public funds. Equally, many companies see higher education as a cheap way to get their research done.

Partners in Innovation will issue recommendations for changes in policy when Sir John reports to the Prince later in the year. However the *McKinsey report provides some* clear clues about the direction in which the initiative is heading. Some forms of collaboration are proving far more effective than others.

Both executives and academics rated personal contacts as the most important factor facilitating collaboration. The next most effective were long *term funding* of research and – most strikingly – joint project teams for particular topics.

David Fishlock examines industry's advance into plasma science

An exciting way to use gases

Electrically excited gases – plasmas – could offer novel ways of carrying out many of today's noxious factory processes, such as etching metal, glass or plastic surfaces, with little *or no fumes or effluent. But the tech*nology will only find wider applications if it is more widely understood.

This is the view of the London-based Centre for the Exploitation of Science and Technology (Cest), the think-tank set up by some of *Britain's most research-conscious* companies to try to identify the emerging opportunities for technology. The wider exploitation of plasma by industry will require a deeper understanding than exists today of the underlying science – as *well as of the* economics.

A strong base of plasma science has been built in Britain for harnessing nuclear fusion for power generation. But the ionised gases – gases whose constituents are electrically charged – that are of interest to *industry are* cooler and more easily contained than those used in the nuclear power industry.

The industrial plasmas *span* a temperature range from a few hundred degrees to about 20,000 deg C. At the lower temperatures, where there is growing interest, they are called cool plasmas. Cool plasmas can be generated using electricity, microwaves, laser beams or shock *waves to excite a gas*.

Temperature, pressure, gas composition and the electrical conditions all help to determine the "activity" of the plasma. For example, the hotter plasmas can incinerate the most toxic organic substances completely, leaving no trace that might leak from the incinerator, as can happen at lower combustion temperatures. For chlorinated organic compounds such as PCBs(polychlorinated biphenyls), normally difficult to destroy completely, plasma incineration seems to offer a temperature high enough to reduce the chemical quickly to molten carbon in which very little toxin could survive.

Robert Whelan, Cest's chief executive, says plasma processing cropped up repeatedly in other studies his think-tank has pursued; for example, into new metal finishing processes, where they found a new plasma gear-hardening process developed in *Germany which reduced a conven*tional 15-stage hardening process to six stages and eliminated effluent.

One industry which has already eliminated much of its wet-processing by such substances as hydrofluoric acid, in favour of plasma, is the processing of semiconductors. Plasma processing has the added advantage of greater precision, increasingly important as microcircuit dimensions decrease.

Plasma processing cropped up again in a study of the future of packaging, when such firms as Courtaulds revealed how vital plasma processing was becoming to *the cleaning and preparation of plas*tic films. Nearly all the polyethylene used for plastic bags, for example, is exposed to a plasma etch that prepares it for printing. Film used in recording is plasma-processed to provide an anti-static surface. Compact discs require plasma processing in their manufacture.

The inherent beauty of plasma processing is that it is dry and easily incorporated into the production line, needing no breaks for ventilation or drainage

The inherent beauty *of plasma* processing is that it is dry and easily incorporated into the production line, unlike wet processes which interrupt production flow by requiring special facilities such as ventilation and drains.

Plastic car bumpers moulded from polypropylene can be plasma-etched in a single stage to prepare them for painting, instead of the usual series of solvent-etches with all their attendant effluent and air-pollution problems. Glass can be plasma-etched before the application of coatings to, say, reduce ultra-violet transmission through window glass.

But the sheer scale on which some of these *"surface engineering"* processes would be needed is a considerable engineering challenge, says CEST's Stephen Howlett. Ideally, the plasma should be generated at ordinary pressures, not in a high vacuum, which would make it dearer.

At Cest, Howlett is half-way through a study of Britain's plasma-processing resources in which he aims to identify the ingredients still needed *to make plasma* engineering a significant industrial activity. Among the assets is the UK Atomic Energy Authority's Culham Laboratory, near Oxford, whose role is to support the EC's Joint European Torus project for fusion energy.

Unfortunately, since fusion energy is many decades away from commercial use, industry has almost no access to the science that Culham generates, says Howlett. But Culham itself has begun to involve itself with cool-plasma problems.

*An important technical develop*ment, Cest has learned, promises to be the unbalanced magnetron, as a way of generating a *lopsided* magnetic field to create cool plasma at high energies for fast processing. ICI and Loughborough University are in the vanguard of this technology.

Cest wants to convene a consortium of companies and research laboratories *that will help develop clear* messages about the scientific priorities Britain needs for plasma processing. Its target is for industry to work with the research base to exploit plasma-based technologies.

CINEMA

Marooned on an island of trickery

PROSPERO'S BOOKS (15)
Peter Greenaway

NEW JACK CITY (18)
Mario Van Peebles

DYING YOUNG (15)
Joel Schumacher

PUMP UP THE VOLUME (15)
Allan Moyle

There was no Book of Family Trees among the 24 volumes stowed, according to Peter Greenaway's *Prospero's Books*, in the Duke of Milan's boat of banishment. If there had been, it would surely show that Greenaway is a descendant of that same Milanese monomaniac. Prospero dwells on a magical island where through illusion he manipulates the fate of puppet humans. Greenaway's films – from *The Draughtsman's Contract* to *The Cook, The Thief, His Wife And Her Lover* – are islands of trickery and artistic totalitarianism where he holds Prospero-like sway.

The traditional beef about P.G. has been that there are never, Brian Dennehy in *The Belly Of An Architect* apart, any autonomous human beings in his films. *Prospero's Books* presents Shakespeare's *The Tempest* as an apologia – but not an apologetic one – for the artist as puppetmaster.

Greenaway's Prospero is Sir John Gielgud marooned in a postmodernist Roman bathhouse. Around him at film's beginning are the props, pillars and persons (largely nude) from whose primal nakedness he will create his drama. For he is also, you see, Shakespeare. We catch him mouthing and quill-scratching the play's first word "Bosun"; we see him overturn his toy galleon to summon the plot; we watch him conjure vari-sized Ariels, one of whom is a small boy pissing cataracts into Gielgud's bath.

This movie is glorious and gaga in equal measures. As an ocular riot, it is unmatched by any other film in modern memory. Hurling naturalism to the winds, like the papers that blow blizzard-like about Prospero's chamber, Greenaway gives us a fantasia on movie (and video) possibilities. There is animation, in the magic-secreting books whose pictures come to life; split screens, spawning frames within frames like the Chinese boxes of artistic creation; giant close-ups transfiguring everyday sights (a water-drop) and outdoor landscapes conjured from corners of the maze-like soundstage (Caliban's stream, a sunkissed wheatfield for Miranda's first meeting with Ferdinand).

On top of this, or milling through it, is a cast of dozens spanning every stage of human upholstery from eye-boggling nudity to Greenaway-Jacobean excess. Michael Clark's Caliban is a gambolling faun with red-painted testicles. Gielgud begins nude, then wears a star-patterned cloak so huge it must need a fork-lift truck to don and doff. Isabella Pasco's Miranda is an Ophelia-like study in liquefaction-as-fashion. And the courtier-castaways, ruffed and hatted to the nines, resemble Carmen Mirandas of the 1600s.

But a paradox dwells at the heart of this harvest for the senses. The conceit that created it is less brainstorming than banal. In casting Gielgud/Prospero as a disguised Shakespeare and calling on Gielgud's voice to ventriloquise all – yes, all – the roles, at least until the forgiveness scene, Greenaway turns *The Tempest* into a fable about the all-fashioning artist. It is the old "Shakespeare's farewell" perspective, always a parochial and sentimental one. *The Tempest* may be the Bard's last bow, but it is much, much more. Few of the semi-submerged themes about moral redemption, nature-versus-nurture, the use and abuse of power, reach the surface of this film. And if they did, one suspects Greenaway would be there to greet them with a ten-ton costume or an invitation to animation.

Even the books of the film's title fail to lend resonance. Supposed keys to Prospero's wisdom, they are Greenaway's version of a desert island library. No Bible; but the complete works of W.S. get in as volume 24. Elsewhere with the titles and contents it is delirium-time in the Greenaway brainpan. "A Book of Mirrors", "A Primer Of The Small Stars", "An Atlas Belonging To Orpheus", "An Alphabetical Inventory Of The Dead", "The 92 Conceits Of The Minotaur" . . .

These would lend wisdom? Rather, they would add to the sum of human madness. They are of course a glorious Greenaway joke, gloriously presented and animated. But even as we giggle we realise what this film-maker is really up to with *The Tempest*. The Swan of Avon has been hijacked to make a Greenaway polling-day. A director mad for systems that reveal and deride humanity's attempt to find a meaning in life – ever since *The Falls* with its list and details of dead people whose names began with "Fa" – has taken the play's great primaries and logged them into his own tragicomic system.

John Gielgud as Prospero

The four elements: the cross-section of archetypal characters; the moral-existential polarities (nature/nurture, Ariel/Caliban). The play becomes not so much a great, pure morality fable as a blank cheque for Greenaway's imagination. He writes on it his decorative, chaotic, postmodernist vision of the world as a menagerie of life-types with many minor meanings but no all-ruling meaning at all.

★

"You gotta rob to get rich in the Reagan era," says someone in the (nearly) all-black crime thriller *New Jack City*. We are in 1986 New York and it looks just like 1991 New York, at least as we know it in the movies. Black crime syndicates led by suave, gold-chained mobsters (Wesley Snipes) are pursued by ill-paid black detectives (Ice T) with holes in their socks and possibly in their brains. These men believe that justice can win through. But we know it cannot. Why not? Because the movies need crime as much as criminals do.

New Jack City caused riots in US cinemas with its tale of crack-dealing gangs. Out there in the audience, screamed the newspapers, were the very people depicted in the film. But surely not. As directed by Mario Van Peebles from a story by Thomas Lee Wright, the film deals in trashy, paper-thin characters who trade in arcane jive-talk ("You lullaby his ass") and depressingly predictable shoot-outs. The only vivid moment is when an informant with a miniature video-camera concealed in his belt buckle goes mad with panic in the crack factory. The propriety of cliche briefly crumbles, then is as swiftly rebuilt.

★

In *Dying Young*, directed by Joel (*Flatliners*) Schumacher, a millionaire's son ill with leukaemia (Campbell Scott) is warmed into love by Julia Roberts. Dying is a serious subject, but not here. Celestial pianos swoop from the clouds over the Pacific coast love-nest. Disapproving Dad makes rumbling noises from San Francisco's Nob Hill. And the *Love Story* – style conversation ranges from culture-vulture piffle – Scott is working on a PhD thesis that promises a revolutionary confusion between German impressionism and the Vienna Secession – to tell-me-about-chemotherapy dizziness from "Nurse" Roberts.

The film died young in America, despite Miss R's fan following. Two things might have saved it. A keener sense of the ridiculous, or the unapologetic sentimental conviction of *Love Story* itself. That at least had the nerve never to tell us it was sorry.

Pump Up The Volume is a multi-decibel morality tale about modern youth. Teenage pirate-radio disc jockey "Happy Harry Hard-On" (Christian Slater) makes anarchic broadcasts to the folks at Hubert Humphrey High School. Grown-up society, obviously sedated by the overdose of aspirates in the area, twigs slowly to HHH's identity. By the time they unmask him, he has mimicked on-air masturbation some 60 times, fielded about a hundred suicide calls from unhappy gay youngsters and perforated our eardrums with rock music. A film long on noise, short on notions.

Why not take yourself instead to the National Film Theatre or Barbican cinema, where tendrils of celluloid are sprouting from the main trunk of London's all-arts Japanese festival. The NFT finds masterpieces from the country's wide-screen history (Ichikawa's *The Key*, Imamura's *Profound Desires Of The Gods*), while the Barbican promises Britain's "largest ever Japanese retrospective."

Nigel Andrews

This ruff magic: a scene from "Prospero's Books"

The Alchemist

SWAN THEATRE, STRATFORD-UPON-AVON

The Royal Shakespeare Company's new production of *The Alchemist* is full of charm and incidental felicities without ever quite appreciating that Ben Jonson's play is one of the great English comedies. The trouble is, once again, the size of the stage: the Swan Theatre is too small to take it. There are times when it looks like French farce or Alan Ayckbourn. Jonson deserves better than that.

So does the RSC. The company is too good to be reduced to this space for such a big play with so many fine parts. Whenever there are more than three significant characters around at once, they tend to crowd each other out. When the dupes of the alchemist arrive in a bunch to demand redress, it is hard to take in the scene as a whole.

The small stage is also responsible for diminishing the role of Sir Epicure Mammon who, as his title suggests (two attributes, not just one), is a big figure. Sir Epicure has two speeches which must rank among the very best in Elizabethan/Jacobean drama. When he talks about "having his beds blown up, not stuffed: down is too hard" and "walking naked between my succubae", he is up there not only with Jonson's *Volpone*, but also with Marlowe's Tamburlaine. Yet you cannot give the image even of strolling in triumph through Persepolis if there isn't any room to do it. Philip Voss's Epicure tends to strut on a postage stamp.

Sam Mendes' direction is less interested in the dupes than the people who set them up. This approach has its strength as well as weaknesses. The strength is that it concentrates on the alchemist (Subtle), the housekeeper (Face) and their partner, Doll Common, who work together to defraud the gullible. There is a wonderful scene, prefaced by a Latin grace, where they sit at a table and solemnly count their loot. Coming at the end of the first half and resuming at the start of the second, it is the best vignette in the production.

On the other hand, it is the dupes who are the play's real characters. They may be flat characters in the E.M. Forster sense that they do not develop, but they are still splendid parts, and they come from all sections of society: Jonson's satire ranges very wide. Apart from Sir Epicure, there is Ananias, the zealous deacon, superbly played by Guy Henry. In this production he is the only dupe fully to realise what a good part he has.

The team-work of the conspirators, if that is not too strong a word, also tends to belittle the role of Doll Common. Joanne Pearce is very fetching in her various wigs, but she struck me as a little too disciplined: too much the team-player, not enough of an individual.

There remains an enigma that I have never understood, which is why Jonson called Surly, the one character who sees through the duping, by that name. For unless it is in the sense that he nearly spoils the fun, there is nothing surly about him. This production adds to the confusion by having Barry Lynch speak uneducated English, but fluent Spanish. It doesn't fit.

Nevertheless, there is a great deal to enjoy and I wish only that we could see it on a wider scale. Even the explosion in the under-stage laboratory is a very muffled bang. The players should let themselves go a bit more.

Malcolm Rutherford

Brand

ALDWYCH THEATRE

Perhaps it is true that London's West End theatre is about to look up. Certainly there is a splendid production of Ibsen's *Brand* at the Aldwych. It is one of Ibsen's earlier works and the one that established his reputation across Europe. It is also one of the last that he wrote in verse. It is the verse, in a marvellously effective new translation by Robert David MacDonald, that makes this production.

The plot is austere, to put it mildly. Brand is a Christ-like figure, a priest who believes in perfection and the power of the will. He lets his mother die without going to see her on her deathbed. He lets his child die rather than forsake his northern settlement for a milder climate. His wife dies as well after he has obliged her to give the clothes of their child to the son of a gypsy. All that is done in the name of obedience to God, a jealous old testament God who, as Brand says, tested Abraham with his son. Brand believes in all or nothing.

It does not come across quite as austerely as it sounds. One of the reasons for this is that Brand, as played by Roy Marsden, is at first more of an amiable seeker after truth than a religious fanatic. He smiles, has human feelings and even, by the standards of northern Norway, a sense of humour. The darker side comes later.

It is the verse that helps. In the last year or so we have become used to rhymed couplets on the English stage, largely through the translations from French by Ranjit Bolt. MacDonald carries the technique much further.

Whereas Bolt tends to specialise in wit and clever rhymes, though he extended his range in his translation of Brecht's *Resistible Rise of Arturo Ui*, at the National Theatre, MacDonald goes in for variations all the time. His verse can be light, conversational and tripping: it can also be tragic, as when Brand faces his final ordeals.

Without the verse, I do not think that the play would work. This is genuine poetic drama of the kind that would have been applauded by T.S. Eliot. (Eliot said of Ibsen that he was a great prose dramatist whose works would have been even better in verse. Obviously he had not seen a proper rendering of *Brand*.)

There is much else to admire. Marsden manages to show that Brand is not just an insufferable prig. He has doubts about whether he is right in his pursuit of fundamentalist faith. His love for his son and his wife is real. The scene in the second half when the child is dead and Agnes gets out his clothes on Christmas Eve is almost unbearably painful, yet never falls over the edge into melodrama.

Agnes is played by Kim Thomson, a beautiful woman whose grief grows on her face yet who can also look angelic as, in the literal sense of the word, she must. The production is presented by Bill Kenwright in association with the Thorndike Theatre, Leatherhead, and is directed by Roger Williams. Life in the nordic mountains requires some strong scenic effects: they come from the designer, Bernard Culshaw. In an attempt to bring epic theatre to the West End, the seat prices are £5 and £10 only.

Malcolm Rutherford

EDINBURGH FESTIVAL

Recitals

The morning recitals at this year's Edinburgh Festival were chosen to appeal. There has been nothing to compare with late Beethoven string quartets straight after breakfast down in Leith as we used to have – festival-going for the truly hardened culture vulture.

Of the recitals gathered around the end of the second week the most challenging was Steven Isserlis's programme at the Queen's Hall. For a start, there was a premiere on offer, Tavener's *Threnos* for solo cello, a short piece, limited in scope, really no more than a single meditative line; but it was a first performance and Edinburgh has not seen many of those this year.

In addition, Isserlis fills a hall the size of the Queen's with his personality in a way that he does not always do in large-scale concerto appearances. His performance of Britten's Third Cello Suite was thoroughly absorbing, because he made the music yield so much, every turn of the page seeming to bring a new mood. His Prokofiev Cello Sonata, Op.119, matched humour with romantic lyricism. It was impossible to let either waft past you. Peter Evans was the clean and able accompanist, leaving Isserlis to take the high ground with music-making of winning spontaneity.

The Panocha Quartet did not quite achieve the same in their all-Dvořák programme, the second of three recitals given by the group at the Queen's Hall. Their sound is ingratiating, the playing unfailingly musical; but it did not seize the imagination to the degree that Isserlis had. Perhaps Dvořák's easy-going lyricism, a native gift for these Czech players, does not provide the scope. Their account of the String Quintet, Op.97, certainly glowed with the required warmth.

It is a brave solo performer who moves from these homely surroundings to the chilly domed auditorium of the Usher Hall, but in this sense at least Felicity Lott is an artist who bravely goes out to meet her audience. The hall was better filled than for a major orchestral concert the night before.

Hers was an afternoon recital, which began with Strauss songs, though the audience might have been forgiven for expecting something less relaxing (Miss Lott's costume was an eye-smacking blue trouser suit with bold orange sash). This music always suits her and almost any line that took the voice upwards or over long phrases could be relied upon to bring some ravishing singing. She does not really communicate with the words, though. Merely making consonants clear is not enough.

After the interval, French music: *mélodies* by Poulenc and Hahn, operetta by Offenbach and Oscar Straus, all given immaculate support by the pianist, Roger Vignoles. Again there was a lot of sensually beautiful singing, while in the popular numbers the singer found a showbiz sense of fun one had not suspected in her. The blue and gold extravaganza had come into its own.

Richard Fairman

Kings

THE MEADOWS

It is strange to say that, of the 25 performances I saw in a seven-day visit to the Edinburgh Festival, the best one took place in a small circus tent, and all too near the madding crowd. Big-wheel engines whirred, bells rang, and kiddies yelled on the fairground outside. None of that, however, distracted the audience for this late-afternoon show.

The actor Alan Howard and the poet Christopher Logue read from *Kings*, Logue's new version of Books I and II of *The Iliad*. Logue made a brief prose announcement of the-story-so-far; then, for 40 minutes, Howard recited from memory the first 21 pages of Logue's poem. For the first several minutes, Howard perched up high, squatting on a tall bar-stool; and at first he employed only the soft tenor upper range of his voice.

The quarrel of Achilles and Agamemnon became engrossing all over again: and, thanks to Howard's effortless diction, lines like "Thrash you until your eyeballs shoot," "Fearful as the toad in a python's mouth" and "Then prayed wet-cassocked in the winking foam" gently branded themselves into the memory.

Gradually, in voice and mood, Howard widened his range, conjuring up all the bristling tension between Achilles' challenging martial tenor and Agamemnon's assured bass legato. His sheer abundance of technique, which caused such lively debate in his audience when he was a leading light with the Royal Shakespeare Company (the art that failed to conceal art), was here a constantly exciting resource. He was protagonist, supporting players, narrator and chorus. I never tired of the basic pleasure afforded by the cleanness of his vowels: the word "superiority" became a light six-note descending scale; he kept basic iambic meter always alive.

I have never known a more thrilling demonstration that poetry is something to be performed live, and from memory. When Howard stands, you see how, with relaxed shoulders and gestures, he controls his voice from the diaphragm. This central core of vitality, together with his strong face and lively neck, give a really classical essence to his performance.

After his brilliant long opening, he and Logue read the next section of the poem for some 30 minutes (Logue is also a fine reader, with an especially good tone to convey the age of wise old Nestor); and then, for the final 20 minutes, Howard recited the poem's final section, building up to the tremendous massed attack by the Greeks on the walls of Troy.

Logue has already tackled two books of the *Iliad* in *War Music*. *Kings* was published this March (Faber and Faber, £4.95) and, like *War Music*, was always planned for performance.

In his introduction, Logue acknowledges the critical support of Liane Aukin, who had already directed *War Music* with Howard for Radio 3 and some live performances. These Edinburgh performances were directed by her. As one who found myself trembling with excitement for some time afterwards, I testify to their impact.

Alastair Macaulay

INTERNATIONAL ARTS GUIDE
TODAY'S EVENTS

■ AMSTERDAM

Concertgebouw 20.15 Jean Fournet conducts Netherlands Radio Philharmonic Orchestra in music by Dukas and Ravel, including the Piano Concerto in G with soloist Imogen Cooper. Tomorrow: Reinbert de Leeuw conducts Rotterdam Philharmonic Orchestra in music by Ravel, Schoenberg and Rudi Stephan. Tomorrow in the Kleine Zaal: Ravi Shankar concert. Sat: Chailly conducts the Royal Concertgebouw (6718 345)

■ BERLIN

Deutsche Oper 19.30 Heinrich Hollreiser conducts Der fliegende Holländer, with Simon Estes as the Dutchman and Sabine Hass as Senta. Tomorrow and Mon: John Dew's production of Les Huguenots. Sat: Hollreiser conducts the Ponnelle production of Fidelio. Sun: Die lustigen Weiber von Windsor (West Berlin 3410 249)
Schauspielhaus 20.00 Walter Weller conducts the Berlin Staatskapelle in Glinka's overture to Ruslan and Ludmilla, Dvorak's Fifth Symphony and Glazunov's Violin Concerto, with Frank-Peter Zimmermann. Repeated tomorrow. The season at the Staatsoper unter den Linden opens on Sun with Madama Butterfly (East Berlin 200 4762)

■ EDINBURGH

Usher Hall 20.00 Christopher Hogwood directs the Academy of Ancient Music in a Vivaldi programme. Tomorrow and Sat: Jiri Belohlavek conducts the Czech Philharmonic Orchestra. Sun: Jessye Norman, accompanied by Philip Moll, gives the closing concert of this year's Edinburgh Festival. Morning recitals in Queen's Hall: Tatyana Nikolaeva plays piano music by Shostakovich tomorrow, followed by a song recital by Thomas Allen on Sat (031-225 5756)
King's Theatre 19.00 Nicholas McGegan conducts first night of new Scottish Opera production of La clemenza di Tito, staged by Stephen Wadsworth and sung in English. Repeated on Sat (031-225 5756)
Playhouse Theatre 18.45 Ballet of the Deutsche Oper, Berlin, presents Ring Round The Ring, a four-hour Béjart extravaganza inspired by Wagner. Tomorrow, Sat and Sun: Peter Schaufuss' Berlin production of Giselle (031-225 5756)
St Bride's Centre 19.15 Open Theatre of Belgrade presents Anouilh's play The Ladies' Band (L'Orchestre), in its first professional staging in Britain. Repeated tomorrow and Sat (031-225 5756)

■ FRANKFURT

Alte Oper 20.00 Diego Masson conducts the Orchestra Giovanile Italiana in Richard Strauss' Alpine Symphony and Sylvano Bussotti's Bergkristall for large orchestra. Tomorrow and next Mon: Marcello Viotti conducts first modern performances of Alberto Franchetti's grand opera Cristoforo Colombo, with a cast led by Renato Bruson. Sun: Leonid Grin conducts music by Wolfgang Rihm (1340 400)

■ GENEVA

Grand Casino 20.30 Mario Venzago conducts a concert performance of Othmar Schoeck's opera Venus (1922), with a cast led by James O'Neal and Lucia Popp (289982)

■ HAMBURG

Musikhalle 20.00 Zubin Mehta conducts Israel Philharmonic Orchestra in Mozart's overture to Die Zauberflöte and Symphony No 41, plus Dvorak's New World Symphony. Tomorrow: Michel Tabachnik conducts Varese and Brahms. Sat at 21.15: Mehta conducts Mahler's Ninth. Sun: Ingo Metzmacher conducts all-Varese programme. Next Mon and Tues: Czech Philharmonic Orchestra (448826)

■ HELSINKI

Finlandia-huset 19.30 Jukka-Pekka Saraste conducts the Finnish Radio Symphony Orchestra in Stravinsky's Scherzo à la Russe and Petruschka, with Nikolai Petrov soloist in Rachmaninov's Second Piano Concerto. Tomorrow and Sat: violin recitals by Sergey Stadler. The Helsinki Festival runs till Sep 8 (9700 4700)
Uspenski Cathedral 19.00 Vladimir Chernushenko conducts the Leningrad M.I.Glinka Choir in a programme of Russian spiritual songs. The choir sings Rachmaninov's Vespers tomorrow at Helsinki University (9700 4700)

■ LEIPZIG

Gewandhaus 20.00 Kurt Masur conducts the Leipzig Gewandhaus Orchestra in Beethoven's Second Symphony, plus Mozart's Haffner Symphony and Sinfonia Concertante K364 with soloists Christian Funke and Karl Suske. Repeated tomorrow. Sun: Chris Barber Jazz and Blues Band (7132 252)
Opernhaus The new season opens on Sat with Die Zauberflöte conducted by Lothar Zagrosek (also Sep 3, 6), followed by Tosca on Sun (7168 273)

■ LONDON

MUSIC

Coliseum 19.00 Jerzy Maksymiuk conducts Don Giovanni, in a production by Jonathan Miller restaged by Francesca Joseph. Steven Page sings the title role, with Jane Eaglen as Donna Anna. Tomorrow: David Atherton conducts revival of Tim Albery's production of Billy Budd, with Philip Langridge as Vere. Sat: Werther (071-836 3161)
Royal Festival Hall 19.30 John Eliot Gardiner conducts the English Baroque Soloists and Monteverdi Choir in a concert performance of Die Entführung aus dem Serail, with Luba Orgonasova as Konstanze and Kurt Rydl as Osmin. This is part of the South Bank Mozart Now Festival. Tomorrow in the Queen Elizabeth Hall: recital by Arleen Auger accompanied by Melvyn Tan, followed by a series of events on Sat and Sun devoted to the music of 1791, with the London Classical Players conducted by Roger Norrington (071-928 8800)
Royal Albert Hall 19.30 Vladimir Ashkenazy conducts Royal Philharmonic Orchestra in Tippett's Concerto for Double String Orchestra, Glazunov's Violin Concerto with Kurt Nikkanen, and Walton's First Symphony. Tomorrow: Peter Eotvos conducts world premiere of Peter Paul Nash's Symphony, plus Britten's Serenade for tenor, horn and strings, and Birtwistle's Earth Dances. Sat: Tennstedt conducts Beethoven's Ninth. Sun and Mon: Orchestre de Paris (071-823 9998)

THEATRE

National Theatre:

- The Miser by Moliere (1668) can be seen tonight, tomorrow and Sat in the Olivier, directed by Steven Pimlott, with a cast led by Eleanor Bron and Charles Kay. Next Mon, Tues, Wed: The White Devil, John Webster's tale of Jacobean corruption, directed by Philip Prowse.
- Long Day's Journey Into Night (tonight at the Lyttelton), is Eugene O'Neill's masterpiece of family guilt, directed by Howard Davies and starring Prunella Scales and Timothy West. Tomorrow and Sat, Ian McKellen gives his Olivier Award-winning performance in Shakespeare's Richard III.
- White Chameleon (tonight at the Cottesloe) is Christopher Hampton's semi-fictional evocation of his childhood in Egypt in the 1950s. Tomorrow and Sat, the Cottesloe is showing Keith Dewhurst's new play Black Snow, based on Bulgakov's satirical novel about Moscow theatre in the 1920s. (071-928 2252)

For information about other shows, phone Theatreline from anywhere in the UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

■ STRATFORD

Royal Shakespeare Theatre 19.30 The RSC's new production of Romeo and Juliet has just opened, in a production directed by David Leveaux and with a cast led by Clare Holman and Michael Maloney (tonight, also next Mon, Tues, Wed). Tomorrow: Twelfth Night. Sat: Henry IV Parts 1 and 2, with Robert Stephens as Sir John Falstaff (0789-295623)
Swan Theatre 19.30 Sam Mendes' new production of Ben Johnson's comedy The Alchemist has a cast led by David Bradley as Subtle (tonight, also next Mon, Tues, Wed). Tomorrow: Shakespeare's youthful love story The Two Gentlemen of Verona. Sat: 'Tis Pity She's A Whore by the English Renaissance dramatist John Ford (0789-295623)

■ VIENNA

Auersperg 20.00 Avedis Kouyoumdjian plays piano music by Haydn, Mozart and Beethoven (4000 8400)
Nationalbibliothek 20.00 Manfred Huss conducts the Haydn Sinfonietta of Vienna in music by Haydn and Mozart, with violin soloist Simon Standage (825208)
Odeon 21.00 Dance in Vienna season: the final guest is Carlotta Ikeda from Tokyo, with a work entitled Utt. Repeated tomorrow and Sat (245562)

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0800-0830 Moneyline
1230-1300 CNN Market Watch
1330-1400 Business Day
2000-2030 World Business Today - a joint FT/CNN production with a review of the day's major business stories with Grant Perry and Colin Chapman
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Sky News
1200 International Business Report
2130 (Thurs) Financial Times Business Weekly

SATURDAY

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0900-0930 World Business Today - a joint FT/CNN production
1540-1610 Moneyweek
1900-1930 World Business This Week
2110-2140 Your Money

SUNDAY

Superchannel
1800-1830 FT Business Weekly
1930-2000 FT Business Weekly
2330-0030 FT Business Weekly

Sky News
1030-1100 FT Business Weekly

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0710-0740 Moneyweek
1540-1610 Your Money
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Thursday August 29 1991

Europe and Yugoslavia

A DECISION which could shape the future of Europe awaits the European Community. It is whether or not to recognise the independence of the two Yugoslav republics of Slovenia and Croatia. The choice is not easy.

Slovene and Croat officials can argue that western recognition of the three Baltic republics opens the way for their own recognition. But the Baltic case is *sui generis*. The forcible incorporation into the Soviet Union of Latvia, Lithuania and Estonia in 1940 was never accepted by the international community. And, as EC ministers pointed out on Tuesday, the recognition of the Baltic republics does not automatically legitimise claims from other independent-minded republics.

At the same time, any decision by the EC with regard to Slovenia and Croatia must not be solely motivated by the need to make a gesture against Serbia, the largest of the Yugoslav republics. It is true that Serb nationalists, backed by the federal army, have attempted to change Croatia's borders by force with the aim of carving out a Greater Serbia. Serbia now controls nearly 20 per cent of Croatia's territory, the annexation of which can never be acceptable. Mr Slobodan Milosevic, the president of Serbia, undoubtedly relishes the confusion among the Twelve vis-à-vis Slovenia and Croatia. There is a danger that if the Community, after weeks of well-intentioned mediation, *fails* to recognise the independence of Slovenia and Croatia, it will be read in Belgrade as a sign of approval.

Considerable grounds

The grounds for recognising Slovenia and Croatia are considerable. Besides the historical point that they never chose to live in a communist Yugoslavia, the citizens of these two republics earlier this year voted for independence from the Yugoslav federation. Their declaration of independence on June 25 was an expression of their desire to escape from life in an authoritarian state; feelings have been strengthened by the behaviour of the Serbian-backed army in recent months.

Since June, Slovenia has taken control of its borders, its foreign and domestic policy, and its own defence and security; it thus meets accepted criteria for statehood. The fact that Slovenia also has a free press, respects human rights and is on the road to a market economy, makes it a welcome member of the European community of nations. Although Croatia qualifies for recognition on technical grounds, its record is far less appealing. It has been slow to reform its political and economic system and has been dilatory in reassuring the 600,000 ethnic Serbs who live inside Croatia that their ethnic and cultural rights will be respected. The European community will thus be right to make a distinction between Slovenia and Croatia in the pace of the recognition process.

Formal demise

Recognition by the Twelve certainly has momentous implications. Since, the non-elected federal government consistently opposed secession unless it was negotiated, it spells the end of the federation and the formal demise of Yugoslavia. But since Slovenia's efforts constitutionally to negotiate its independence from the federation have been repeatedly blocked by the Serbian-dominated collective presidency, that cannot be advanced as a reason for inaction. Mr Milosevic must not be allowed to re-shape the Balkans according to a narrow and repressive Serbian vision.

Equally, however, the Community has to understand that defying Mr Milosovic on the future of Slovenia and Croatia will not stop him. All that can be achieved is an appropriately timed recognition of the two breakaway republics, continued pressure for a mediated peace process and the clearest possible declaration that those whose politics involve the forcible redrawing of international borders will never qualify for membership of Europe's economic and political system.

Monetary cures

MUCH of the failure of British economic policy in the late 1980s stemmed from the Treasury's inadequate response to a dramatic change in the structure of the private sector's balance sheet. That upheaval in turn was driven by financial liberalisation and excessive optimism, fostered by the longest post-war recovery. The government's inability to grasp the strength of the forces it unleashed on the economy has now caused it to impose a monetary squeeze which is almost as tight as that of the early 1980s. The question now is whether this one-off adjustment in the private sector is already complete and how far a deregulated financial market is compatible with stable growth.

The severity of the recession almost certainly ensures that it will be a long time before private individuals are prepared to increase debt much beyond present levels in relation to income. Yet the existence of substantial unused collateral in the housing market points to some residual risk of a mini-credit boom in the 1990s. Hence the validity of the question raised in an article by J R Sargent in the latest National Institute Economic Review: is there a case for a return to a regulated financial system?

The shortcomings of a monetary policy that places exclusive reliance on interest rates have already been exposed by the Lawson boom. It is not simply that interest rates take a long time to bite in a deregulated market; even penal rates of interest will fail to deter borrowers when asset prices are rising as fast as house prices rose in the late 1980s.

Yet the alternatives are scarcely more palatable. Regulating finance is no longer synonymous with regulating financial institutions. In the absence of exchange controls, which are neither feasible nor desirable, the scope for avoiding regulation is infinite. The efficiency gains from deregulation would be lost as re-regulation introduced fresh distortions.

That is not to say that all attempts at re-regulation are bound to fail. The case for loan-to-value ratios in the mortgage market, which would deprive bankers of security for rash loans, bears consideration. Yet it remains striking that in the US, which went through a similar process of deregulation in the 1980s, the Federal Reserve's approach to monetary control not only relied exclusively on interest rates, but succeeded in pre-empting serious inflationary pressures. The US failures lay chiefly on the side of supervision.

The shortcomings of British monetary policy will presumably be addressed through membership of the Exchange Rate Mechanism. In the meantime there is ample room for improvement in the Treasury's forecasting record. Here Mr Sargent flies an interesting kite: a British equivalent of the Council of Economic Advisers. There are plenty of practical objections. But there may be something in the more general principle of introducing some independence into a forecasting process that is vulnerable to political manipulation.

Holiday work

WITH FOUR uninterrupted months of work until Christmas, the National Economic Development Council has proposed a new bank holiday in the third week of October. The Gradgrinds at the Department of Employment and CBI were quick to disparage the "Harvest Holiday" as a blow to competitiveness.

The threat to the national interest should not be overdone. It is the quality of work which matters, not the quantity: working non-stop through the autumn almost certainly means productivity is lower in December than in August.

But if the UK economy depends on having the lowest number of statutory holidays in the EC, the unloved May Day holiday could be dropped to compensate. The weather has never been kind to this import, and the proletarian internationalism it celebrates has lost its cachet. Getting rid of it would eliminate the cluster of three bank holiday Mondays in as little as six weeks – which does disrupt production.

The NEDC also suggests anchoring Easter to the second Sunday in April. This might simplify life for schools and the tourism industry, but it would leave the UK out of synch with the rest of the EC, with exchanges, banks and businesses closed when their European counterparts were open, and vice versa. Interfering with religious observances looks to be a duty which Westminster could usefully relinquish to Brussels.

Martin Wolf argues that political autonomy for the republics could lead to the disintegration of the Soviet economy

Breaking up is hard to do

The defeat of last week's attempted coup and the end of the Communist party's hold on Soviet life were the easier of the herculean labours facing the peoples of the Soviet Union. Now comes the hard part: reforming the Soviet economy in the midst of catastrophic collapse and apparently irresistible pressures for political dissolution. Can it even be done and what, if any, role should the west play?

The question of western aid must at last be addressed. Contrary to the bleating, largely from the left, about the west's failure to support Mr Gorbachev, the topic was not worth serious discussion until now.

The view that greater assistance to the Soviet Union would have prevented the coup is politically implausible and economically illiterate. In the pre-coup Soviet Union, where shortages and growing economic disarray were the result of suppressed hyperinflation and the collapse of central planning, aid would have been worse than useless. It would have made it still easier for the hierarchy to postpone changes that it was evidently unwilling to make.

All has now changed. The old communist power structure committed suicide last week. The power of the Communist party apparatchiks to obstruct reform, the capacity of the military to extract resources and the determination of the KGB to intimidate private entrepreneurs have all gone. Like the countries of eastern and central Europe before it, the Soviet Union can at last embark on serious reform. Unfortunately, the revolution that has made an economically successful reform politically conceivable has also made it technically still more difficult.

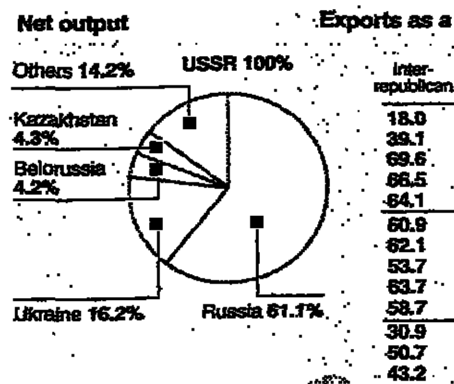
The difficulties are not just the well-known ones: the breakdown of central planning, the collapse of fiscal and monetary discipline, imminent hyperinflation, the disappearance of virtually all wage discipline and the growing risk of default on the Soviet external debt. In these respects the situation is dreadful, but not far worse than in Poland in 1989. Such a crisis can even be a stimulus to reform rather than an obstacle.

Nor is the difficulty the hostility to entrepreneurs, excoriated as "black marketeers" and "speculators", and the ignorance, throughout society, of what a market economy is and how it works. Even in these respects the Soviet Union may not be that much worse than other post-communist countries. What makes transformation of the Soviet Union almost uniquely difficult is that on top of the adjustment from the old economy to the new, which experience in eastern and central Europe has shown will be protracted and severe, now comes the disintegration of the Soviet Union itself.

President Mikhail Gorbachev argues that "all the logic of our lives for centuries of history show that splitting apart... would be death for our people". He is right. A breakdown in internal commerce within the Soviet Union, coming on top of the 10-20 per cent decline in gross domestic product already likely this year, would inflict something close to economic death. There might and, in theory, should be economic life after such death. But the consequences of internal economic collapse for inter-ethnic and inter-republican conflict are terrifying.

A paradoxical feature of the present rush for the exit is that the dominance of Russia, which is what the other republics fear, is why it alone can contemplate economic disintegration with equanimity. Responsible for 61 per cent of net Soviet output and 90 per cent of its output of oil, possessing three quarters of its area and half of its population, the Russian Federation is a colossus among pygmies. With exports to other republics at 18 per cent of net material product (see chart) in 1988, the disintegration of the Soviet Union would be very painful for Russia, but it could survive, even in the short to medium term.

Net output

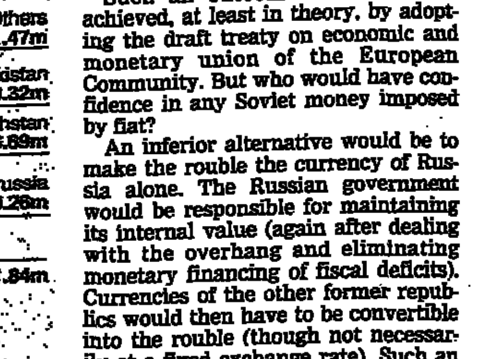


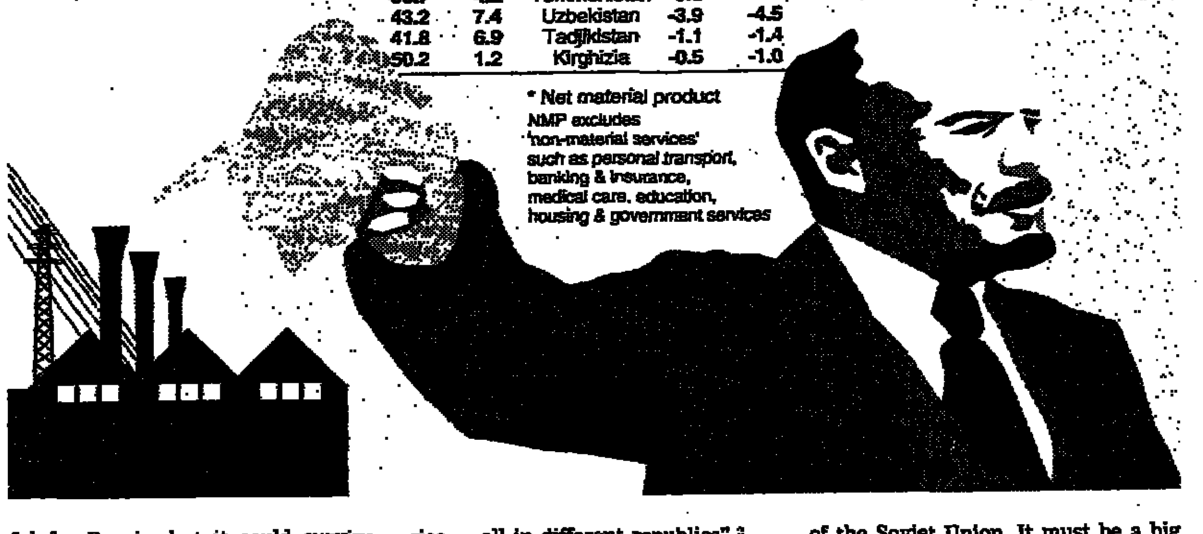
Exports as a % of NMP* / **Inter-republican trade balances** Roubles billion

Inter-republican	Abroad		At domestic prices	At world market prices
18.0	8.6	Russia	3.6	28.5
39.1	6.7	Ukraine	1.6	-3.9
69.6	6.5	Belorussia	3.1	-2.2
66.5	7.4	Estonia	-0.2	-1.1
64.1	5.7	Latvia	-0.3	-1.4
60.9	5.9	Lithuania	-0.4	-3.3
62.1	3.4	Moldavia	0.6	-1.5
53.7	3.9	Georgia	0.6	-1.5
63.7	1.4	Armenia	0.6	-0.3
58.7	3.7	Azerbaijan	2.0	0.2
30.9	3.0	Kazakhstan	-5.4	-6.6
50.7	4.2	Turkmenistan	-0.3	-
43.2	7.4	Uzbekistan	-3.9	-4.5
41.8	6.9	Tadjikistan	-1.1	-1.4
50.2	1.2	Kirghizia	-0.5	-1.0

* Net material product
NMP excludes 'non-material services' such as personal transport, banking & insurance, medical care, education, housing & government services

Population





For the other republics, however, the adjustment would be traumatic. This is true even of the Ukraine, though it is a good-sized republic of 52m people – 18 per cent of the Soviet population – and generates 16 per cent of net Soviet output. Together, Russia and the Ukraine make up the bulk of the Soviet Union, with almost 80 per cent of its output and area and almost 70 per cent of its population. The addition of Belorussia and Kazakhstan brings the total to 86 per cent of Soviet output.

Yet even relatively important republics could be devastated by a Soviet economic dis-union. Exports to other republics were equal to 31 per cent of Kazakhstan's net material product in 1988 (and perhaps about 22 per cent of its gross domestic product). Inter-republican exports accounted for 39 per cent of Ukraine's net material product; for Belorussia the corresponding figure was 70 per cent, highest of all the republics, though not much higher than for several others.

Even such figures understate the effects of a collapse in inter-republican commerce in this economy. The joint report from four international agencies released at the end of last year laments that "an estimated 30-40 per cent of total industrial output is accounted for by products for which there is but a single manufacturer."[1] The Central Intelligence Agency notes that "the Soviet Union's entire output of potato, corn and cotton harvesting machinery comes from single factories – all in different republics".[2]

Moreover, trade outside the Soviet Union would offer no easy escape from a collapse of internal Soviet trade. Traditional links with eastern Europe are broken. More important, the ratio of exports to the rest of the Union to exports to the rest of the world varies from more than two to one for Russia to no less than 46-to-one in the case of Armenia.

What has happened to eastern and central European countries as a result of the collapse in the trade of the Council for Mutual Economic Assistance (Comecon), traumatic though it has been, is but a pale shadow of what would happen to the Soviet republics. In 1988 the ratio of exports to Comecon to net material product was 20 per cent for Czechoslovakia, 16 per cent for Hungary, and only 9 per cent for Poland. These figures are far lower than those for the dependence upon one another of all the Soviet republics, but one.

A breakdown in internal commerce, coming on top of the decline in GDP already likely this year, would inflict something close to economic death

The internal commerce of the Soviet Union must be sustained, whatever happens to its political arrangements. This should be an overriding objective of the republics of the Soviet Union. It must be a big concern of the west as well.

Yet the survival of such commerce is far from guaranteed. On the contrary, between independent states with comprehensive controls over their economies and no common or convertible currency, the collapse of trade is almost certain. Controlled economies always tend towards autarky. In the Soviet case – where one of the main reasons for the search for monetary independence is to protect republican resources from the rouble – a shift towards republican autarky is still more likely. Such moves have already played an important part in the economic decline of the past two years and would make it still worse in the future.

The hierarchical structure of central planning was one way to organise internal trade. Horizontal links among profit-seeking enterprises are the only other one. If moves to the market were important before the coup, they have now become vital. Only on the basis of private property and free trade is there hope of sustaining economic links amongst the constituent republics of the Soviet Union. To the extent, therefore, that republican autonomy is sought by old-style communists as a way of maintaining their position, the chances of maintaining inter-republican trade are significantly diminished.

Market relations and free trade among the republics must, therefore, be an essential element in any modified version of the flawed Union treaty, whose signing was rudely interrupted last week. Equally important, however, is the absence of internal exchange controls. Yet with many republics thinking of issuing their own currencies as a replacement for the rouble, such controls would seem inevitable. With the rouble becoming worthless, the peoples of the Soviet Union need a new monetary constitution.

Probably the best alternative would be to make the rouble a common Soviet currency backed either by commodities or by foreign exchange. Such a currency would by definition not be prey to political manipulation either by the centre or by any republican government. It could only be introduced after devaluation (and inflation) of the current rouble, or after demonetisation of a part of the existing monetary stock. There could then be no monetary financing of fiscal deficits, be they at the centre or republican levels.

Such an outcome could also be achieved, at least in theory, by adopting the draft treaty on economic and monetary union of the European Community. But who would have confidence in any Soviet money imposed by fiat?

An inferior alternative would be to make the rouble the currency of Russia alone. The Russian government would be responsible for maintaining its internal value (again after dealing with the overhang and eliminating monetary financing of fiscal deficits). Currencies of the other former republics would then have to be convertible into the rouble (though not necessarily at a fixed exchange rate). Such an arrangement would, in effect, replicate the exchange rate mechanism of the European Monetary System. (It may be noted that, under such an arrangement, once one currency is made convertible into non-Soviet currencies, they would all be.)

In addition, the fiscal crises of the Soviet Union and the republics must be resolved. How precisely this is done would have to depend on whether any central government would retain substantial responsibilities. But internal trade could probably not be sustained in the short term without inter-republican fiscal transfers. One only has to look at what would happen to the trade balances of Russia and the remaining republics following a move towards world prices.

The obstacles to radical reform presented by the old central government may have largely collapsed. But the disintegration of the Union has increased the need for reform, while making it more difficult. A treaty creating an economic union is essential. Without it, the Soviet economy faces a collapse which could make what has happened in eastern Europe look like a mild recession.

Given the political dangers, the west cannot be a mere bystander. On the contrary, it should make clear its willingness to supply substantial assistance. But that assistance must be predicated on the maintenance of economic union. Western aid must not be offered as a prop to republics that inflict upon themselves the unnecessary wound of precipitate and ill-considered withdrawal from economic relations with the rest of the Soviet Union. The Baltic states may, by virtue of their history and their location, be a special case. But, for the rest at least, a viable plan for an economic and, if possible, a monetary union must be agreed and implemented. On this point, President Gorbachev deserves – and should be given – strong western support.

[1] *International Monetary Fund, International Bank for Reconstruction and Development, Organisation for Economic Co-operation and Development and the European Bank for Reconstruction and Development, The Economy of the USSR, Summary and Recommendations, December 1990.* [2] *Central Intelligence Agency, Beyond Perestroika: the Soviet Economy in Crisis, May 1991;*

OBSERVER

Surprise candidate

■ How about Mikhail Gorbachev for United Nations secretary-general? His name is being canvassed in some Washington circles as a successor to Pérez de Cuellar who has now announced he will not seek another term.

The Gorbachev campaign will hardly find favour with President Bush who has gone out of his way to support the Soviet president since he emerged from house arrest in the Crimea. Bush now sees him as a vital force for stability in the delicate power-sharing arrangement with Boris Yeltsin.

But other voices in the US Congress - notably Senator Bill Bradley, the New Jersey Democrat - have begun touting Gorbachev as an ideal successor to de Cuellar. Bradley says Gorbachev has accomplished a historic mission in his own country as the godfather of reform; now he needs "a new and enlarged role" on the world's stage as UN secretary-general.

As a Nobel Peace Laureate and a long-standing advocate of an expanded role for the UN, Gorbachev would certainly seem well qualified for the job, which would be a good deal more secure than the one he occupies at present.

But even assuming he wanted it - which must be doubtful given his latest bid for a comeback in Soviet politics - Gorbachev would have to consider one potential drawback. As secretary-general, his first peace-keeping mission might just be to mediate between the feuding republics in the Soviet Union.

Live wire

■ At least some life should be brought to Britain's Citizen's Charter advisory panel by the inclusion of Dr "Mad" Pirie, president of the right-wing Adam Smith Institute since 1978. Although christened Madsen, he is known by his nickname to friends and enemies alike – which is scarcely surprising given that the institute still proudly claims credit for thinking up the poll tax.

The ASI likewise claims the credit for the Citizens' Charter. That's because it held a seminar in February on the "empowerment" of consumers of public services, which was attended by a member of the Downing Street Policy Unit.

Graham Mather of the rival Institute of Economic Affairs was not amused. He had been calling for contracts between producers and users of public services for some years.

Neither did the bow-tie sporting Pirie's claims go down well with the politicians who seized on the citizen's charter scheme. He was excluded from the famous Chequers seminar which shaped the final result.

But unabashed, he set up a series of seminars to develop the ideas. Hence, no doubt, his being rewarded with a place on group that which will steer through the initiative.

Also on the Panel is Lady Wilcox, who was at the Chequers seminar, and chairs the National Consumer Council....

But who Dr Nancy J Lane? A *neurobiologist*?

Accident bank

■ Nice to know that Midland Bank has not lost its nose for trouble. Where there's a financial black hole, dear old Midland is rarely far from the edge.

So it should hardly come as a surprise that its Midland Montagu Bank has cropped up as one of the two non-Nordic banks belonging to a 15-strong syndicate owed a fortune by Gamlestaden – the finance arm of Erik Penser, the Swedish offshore gambler who is now being bailed out by his government. The word from Midland is that there is *nothing to worry about*.

Of course.

"This time next year we could be in the Eurovision song contest."

Smith digs in

■ S.G. Warburg and Cazenove, beware. Smith New Court is on your tail.

Yesterday SNC picked up 11 new corporate stock-brokerships and whilst names such as Barnato Exploration and DAB Investments don't mean much to the average punter, it is yet another sign that Smith New Court is intent on being the international firm that counts when it comes to dealing with South Africa.

In terms of making markets in South African shares in London and New York, Smith New Court is already the dominant player. But it is now making a big push for corporate finance business and its appointment as London stockbroker for the various companies in the Johannesburg Consolidated Investments empire puts it in an enviable position.

Having pinched Gencorp from James Capel, Rand Mines from Laurence Prust, and now Johnnies from Williams de Broe, SNC probably already has the biggest corporate client list of anyone servicing the South African mining industry. Only Warburg's Rowe and Pitman and Cazenove come close, and they do not seem to be hustling for business like "the brothers".

Paddy's jobshop

■ "Under our existing constitution," railed yesterday's Liberal Democrat campaign document, "the Prime Minister and the Chancellor...need only take into account the effect of policy on those people and parts of the country that are most important to them in electoral terms."

Interesting then, that the document in question was printed by Rectory Print of Stoke-sub-Hamdon in leader Paddy Ashdown's Yeovil constituency. The company, which Ashdown helped to develop some years ago, "happens to have the most competitive prices and the most efficient service," says a party minion.

Cross bred

■ Australia's "tall poppy" syndrome – the tendency to cut overly famous figures down to size – has undergone a metamorphosis in Nikkei Weekly, the English language edition of Japan's Nihon Keizai Shimbun newspaper.

In a recent survey of Australia, the weekly repeatedly refers to the country's "tall puppy" syndrome, concluding solemnly: "For Australia to take its place on the world podium, it must shed the tall puppy syndrome and start wagging its own tail."

Sounds a bit of a shaggy dog story to me.

Volkswagen shifts into a global gear

The launch of the new Golf holds the key to VW's plans for expansion in Europe and north America, says **Kevin Done**

Volkswagen is driving down a road of breathless expansion. While the equity markets remain fearful of the group's disappointing profitability, the high costs of its German manufacturing base and its formidable investment commitments, the German car maker is intent on moving into a league of its own in Europe.

It is drawing rapidly away from its local rivals, as the challenge from Fiat of Italy for its European crown has faded in the past two years. VW's leadership status is now undisputed. Just as important, it is asserting its role as the only European volume car maker with pretensions to being a truly global producer.

As VW prepares for the public unveiling next month at the Frankfurt motor show of its third-generation Golf – the car which must play a crucial role in shaping the group's fortunes in the 1990s as Europe's best-selling model – Mr Carl Hahn, chairman of the VW management board, claims vehicle sales are on course to increase to 4.5m by the year 2000.

The company aims to become big enough to challenge General Motors, Ford and Toyota as a leader of the world auto industry. In this league financial muscle is critical for expansion, and Mr Hahn says the group plans capital investment and spending on new product development of DM10bn (£3.4bn) a year for the next five years, sums which worry financial analysts.

For the first time last year VW broke through the 3m barrier with sales increasing to 3.03m from only 2.1m in 1982

"A significant gap between VW's internally-generated cash flow and its massive capital expenditure requirements opens up in 1991 and widens during 1992 and 1993," claims Mr Stephen Reitman, automotive analyst at UBS Phillips and Drew, the stockbroker. Higher borrowings will slash financial earnings, which accounted for almost half of the the group's 1990 pre-tax income of DM2.39bn, he says.

"VW is dashing for growth, attempting to mitigate its ruinously expensive domestic manufacturing handicap by expanding explosively outside Germany."

Mr Hahn does not dispute the dash for growth but emphasises that already this year close to half of the group's output will come from outside Germany. He claims that the opening up of eastern Europe has presented VW with opportunities of a historical dimension, and he insists that the group is "fully capable" of handling the extra load.

"We still run with enormously comfortable liquidity. People always have problems interpreting our financial figures. We are enormously conservative."

Last year for the first time the VW group broke through the 3m barrier with total vehicle sales increasing to 3.03m from only 2.1m in 1982. With the inclusion of Skoda, the Czechoslovak car maker which VW acquired earlier this year, and buoyed by the extraordinary jump in new car demand in unified Germany, Mr Hahn already expects sales to approach 3.5m this year.

The urbane 65-year-old Volkswagen chairman has already had his contract prolonged by a grateful supervisory board by two years to the end of 1993. This is to allow him to continue with crucial new product introductions, acquisitions and capacity expansion. Born in the eastern German city of Chemnitz – now no longer Karl-Marx-Stadt – Mr Hahn has led a personal drive by the German car maker into eastern Europe. These include:

- Ambitious projects in eastern Germany which demand an investment of about DM4.6bn, most importantly for a 1,200-a-day integrated car plant at Mosel, where production of the new Golf is set to begin in 1994. Kit assembly of the current Golf range is already under way.
- In Czechoslovakia two takeovers, including Skoda, have helped to underline VW's leading position in eastern Europe. At Skoda, VW plans a DM9bn investment programme in the 1990s with a doubling of capacity to 400,000 cars a year and a new engine plant. Its 31 per cent stake will rise to 70 per cent in 1995, but it has already taken full management control.

At Bratislava, VW is to build a 1,400 units-a-day transmission plant and will assemble about 30,000 VW Passats a year.

Mr Hahn rejects criticism that VW may be over-reaching itself in eastern Europe. The same strategy that led to the SEAT purchase in 1986 lies behind the Skoda acquisition, he insists, namely the takeover of an additional brand name, access to a new market, the purchase of production capacity and the associated sales and distribution channels and market share.

"In contrast to many of our competitors we have succeeded in entering a region which for us was a blank space on the map," he says.

In central Europe – the former East Germany, Czechoslovakia, Bulgaria, Poland, Romania and Hungary – VW expects sales to jump from about 863,000 in 1989 to 1.5m-1.8m in 1995 and 2.15m-2.5m in 2000.

Eastern Europe is only part of the VW group's planned global expansion:

- It is seeking to establish itself as the leading western car maker in China with a total capacity of about 300,000 vehicles a year by the mid-1990s. It will build 150,000 cars a year by 1996 through a 40 per cent stake in a joint venture with the First Automobile Works in Changchun in north-east China – its second Chinese joint venture. VW wants to develop a low-cost manufacturing base in Asia and the DM1.5bn project will include engine and gearbox plants as well as car assembly.

In Japan VW hopes to increase sales through a co-operation deal with Toyota, a leading global rival, which is to sell VW/Audi cars through one of its local distribution channels.

- In Mexico VW is increasing capacity by 50 per cent and aims to use the country increasingly as its low-cost production base for north America, having abandoned its US assembly plants in 1988.

The company is developing a regional headquarters in Detroit for the north American region, including the US, Canada and Mexico. While European producers such as Peugeot and Rover are abandoning the US car market, the VW chairman insists that a presence is vital.

The US sets the benchmark in areas where the auto industry is being most severely challenged by the regulatory authorities, such as in safety and emissions standards. Also, Mr Hahn is clear that the US market is the most competitive in the world, where VW needs to prove itself if it is to be a global player.

"We simply cannot afford to give up either the opportunities offered by the US market, or the learning processes and experience it imposes," he says.

"In the US we have already been exposed for 10 years to the sort of conditions that await us in Europe in the 1990s, namely the competition of an absolute buyer's market, where the customer is the undisputed king."

- One of VW's most important expansion projects in western Europe is in Spain, where the takeover of SEAT, the previously loss-making car producer, is bearing fruit. About DM10bn is being invested in new plants and new model development in the 1990s, and next year will see the start-up of a 350,000 cars-a-year plant at Martorell, near Barcelona.
- In Portugal, together with Ford, the VW group is venturing into a new segment of the European car market in a $2.8bn project to develop and produce a range of minivans, seven-eight seat high-roof estate cars of the type pioneered in Europe by the Renault Espace.

Alongside acquisitions and expansion of capacity, VW is also making moves on the new product front.

One car, the Golf, accounts for 30 per cent of the VW group's total car production – the share is more than 38 per cent with the inclusion of the related VW Jetta saloon. The third-generation Golf may well challenge the Beetle for a place in automotive history by the end of the decade.

The company has produced more than 12.7m Golfs in two model generations since 1974, including the current car launched in 1984, while total Beetle production now approaches 21m.

Volkswagen has spent DM2.7bn in research and development and new plant and equipment for the Golf, which is expected to be produced at a rate of more than 4,000 a day by the mid-1990s.

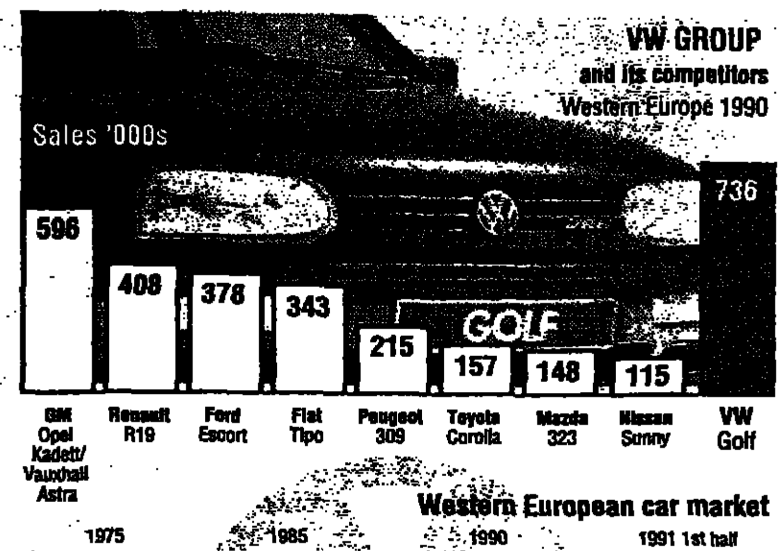
The Golf launch will spark intense competition in one of the most hotly contested segments of the European car market. It coincides with the launch by General Motors of its new generation Opel/Vauxhall Astra, the second-best-selling car in Europe and the main rival to the Golf.

The Golf/Astra segment of the European car market accounts for 30.2 per cent of all western European new car sales. Success in this area is vital for every volume car maker, but for VW it is also vital that the new generation car is cheaper and easier to build, so that it can bring relief to the high costs of its German manufacturing base.

Volkswagen has taken important strategic steps to profile the safety and environmental features of the car, including its ability to meet US safety regulations, the toughest in the world, due to be introduced in the mid-1990s. The car has also been designed to be recycled at the end of its life.

The current Golf has established itself firmly as the unchallenged leader in the European car market, and the new Golf, which will eventually be produced at six VW plants – Wolfsburg and Mosel in Germany, Belgium, Mexico, South Africa and Yugoslavia – can have no lesser goal.

Mr Tom Mason, sales and marketing director at GM Europe, which is launching the Opel/Vauxhall Astra admits: "There are certain product launches and market segments that are critical for our success. In the compact segment with the Astra and the Golf you end up betting the farm every time. It is such a large part of the volume."



Western European car market

1975 MAKER	% SHARE	1985 MAKER	% SHARE	1990 MAKER	% SHARE	1991 1st half MAKER	% SHARE
Fiat	15.7	VW Group	12.9	VW Group	15.4	VW Group	16.7
Renault	12.4	Fiat	12.5	Fiat	14.2	Fiat	13.3
VW Group	11.1	Ford	12.1	Peugeot Group	12.9	GM	12.6
Ford	9.7	Peugeot Group	11.7	GM	11.8	Ford	12.1
GM	8.9	GM	11.5	Ford	11.6	Peugeot Group	11.3
BLMC	6.9	Renault	10.7	Renault	9.9	Renault	9.9
Japanese	5.1	Japanese	9.9	Japanese	11.6	Japanese	12.3
SEAT	3.2	SEAT	1.5	SEAT	2.3	SEAT	2.3

VW Group includes: Volkswagen, Audi, SEAT, Skoda

Fiat Group includes: Fiat, Alfa Romeo, Lancia

GM includes: Opel, Vauxhall, Saab

Ford includes: Jaguar

Source: Volkswagen

BOOK REVIEW

Dream street to mean street

WHATEVER HAPPENED TO MADISON AVENUE?
By Martin Mayer
Little, Brown $22.95, 269 pages

There was a time back in the late 1950s when Madison Avenue seemed as if it was one of the most glamorous streets in Manhattan.

Those were the days when the Madison skyscrapers were crammed with advertising agencies and when the ad industry was on a roll. Hollywood producers set their movies in the agencies' swanky offices. Academics churned out tome after tome on the pervasive powers of the advertising medium. And Martin Mayer wrote a book, Madison Avenue, USA, on how America had become the advertising capital of the world.

For his new book, Whatever Happened to Madison Avenue?, Mayer went back to see what had happened to the US advertising industry in the intervening three decades.

The picture he paints is dispiriting. Madison Avenue itself is different. All but a handful of the agencies have been chased away to cheaper rentals in downtown Manhattan. These days the only Hollywood movies set in ad agencies tend to be scabrous satires. And most of the academic tracts on advertising are penned by business school professors opining on the industry's woes.

The US advertising industry is in trouble. It has shrunk in size and stature. It has also been preyed upon by avaricious UK companies such as Saatchi & Saatchi and the WPP Group that now own some of the most prestigious names in American advertising.

Perhaps the most poignant testimony to its plight is the story of how last summer the Association of American Advertising Agencies, the trade body, ran a publicity campaign based on a study into advertising effectiveness conducted by the Ogilvy Centre research organisation in San Francisco. A few months later the Ogilvy Centre was closed because of the financial problems of WPP, its parent company.

Mayer offers a thorough analysis of the reasons for the advertising agencies' plight. The fragmentation of the US media; the growing power of the retail sector; the crippling legacy of the leveraged buyouts that swept across US industry in the 1980s; and the growth of alternative forms of promotion, such as database marketing, are all cited as contributors to the decline.

The future looks even worse. Mayer sketches a gloomy scenario in which the industry will not only still be struggling with the same problems that beset it in the 1980s but will also face a new set of pressures for the 1990s.

Some younger US companies, notably The Gap fashion group, are by-passing agencies to organise their own advertising. Meanwhile, retailers are exerting even greater influence over marketing. Mr Mayer sees in-store promotion – everything from the commercials on supermarket muzak tapes to the 'Videocart' shopping trolleys that relay commercials on video screens – as a fast-growing medium.

In short, the US agencies face a future in which advertising is no longer the dominant marketing medium. The logical solution is for them to adapt by providing the new forms of promotion which will absorb more and more of the marketing budget.

The problem is that neither Mayer, nor the agency chairman featured in his book, seem to know how to go about it.

Whatever Happened to Madison Avenue? is filled with accounts of misty-eyed ad executives reminiscing about the good old days when advertising was a fun business, when they dealt directly with presidents, rather than the junior marketing managers they deal with today.

What they do not do is demonstrate that they are either able, or willing, to address the industry's problems.

Mayer ends with the wish that the "sort of wise guy who went into advertising in the 1950s" and "wound up in investment banking in the 1980s" will return to advertising, "the realm where illusion is legitimate", in the 1990s.

But will the 'wise guys' want to waste their illusions on a supermarket shopping trolley?

Alice Rawsthorn

LETTERS

When to bank on a review

From Mr John T G Harris.

Sir, At the height of the debate recently concerning the clearing banks' attitude to small businesses I wrote to the chancellor of the exchequer outlining an example whereby a client of mine had seen the margin over base rate on its borrowings more than double through the apparently new practice of charging overdrafts using managed rates. In brief, my client was previously charged at 2 per cent over base and Lloyds then proposed to amend this to 1.3 per cent per month – with base rate at 11 per cent. Simple mathematics shows the inequity of this conversion.

May I hasten to add that my client's security was no less secure than was previously the case.

A Treasury release on banks' lending practices suggests that there is a shortcoming in the government's approach to this matter. It would appear that Mr Lamont, the chancellor, has held face-to-face meetings with the chairman of the four major clearing banks and asked them if they are overcharging their small business customers. It is only human nature to suppose that they said they were not. From my reading of the document there has been no actual government check on whether or not this is really the case.

So has this review really achieved what it set out to do? I know for a fact that various points the bank has put to the chancellor are incorrect. I wonder if the chancellor is aware of this.

John Harris,
Oak Cottage,
Cottesbrooke,
Northamptonshire

The Soviet Union, the west and business

From Mr E Whitley.

Sir, Your leading article ("Next steps and Moscow", August 27) setting out various conditions to be met before "a prompt and imaginative response will be in order" from the west to the crisis in the Soviet Union, omits one crucial element. Any such response must be dependent upon, first, removal of all Soviet forces from foreign soil, and, second, proper compliance with the terms of arms reductions already agreed, ie, rectification of the cheating whereby Soviet tanks have been transferred from the army to the navy.

To concentrate solely on clarifying control of the Soviet nuclear arsenal, without addressing conventional arms, now, while the country is in a supplicant position, would be to store up a far worse problem for the future.

Fortunately, Mr Bush is displaying caution, but with a general election approaching British politicians of all parties are falling over themselves to appear generous. Mr Major, in his G7 deliberations, would do well to recall that, over the years, the Russians have proved adept at using the west's butter to make their guns.

Edward Whitley,
Churton Lodge,
Pulverbatch,
Shrewsbury

From Mr James Hutchings and Mr Peter Davis.

Sir, During last week's coup we were both in the Soviet Union; not in Moscow, but some 2,000 miles away in the central Asian republic of Kirghizia. We had been invited to explore opportunities for trade and investment by British companies.

We found a republic eager to establish links with foreign investors and with probably the most liberal foreign trade legislation, along with the Russian Federation and Kazakhstan, in the Soviet Union. Kirghizia has a population of 5m but the geographical size of west Germany. It has a wide range of untapped mineral deposits, breathtaking scenery with much potential for sensitive tourist development, and a well-educated, but low-wage workforce.

We also found that while companies from South Korea, Japan, the US and other countries were busy establishing contacts and business in Kirghizia, the chairman of the Foreign Economic Relations Committee there could not recall a single contact with any British business organisation or company.

Here is a country looking for foreign investment, on the verge of wholesale privatisation, and which has fond memories of Britain.

We hope that the British are still able to take risks and explore new markets such as this, rather than perpetuating the usual pattern of watching their competitors steal a lead and complaining that government is failing to support British business.

James Hutchings,
Peter Davis,
Anglo East-European Trading Co,
Vigilant House,
120 Wilton Road,
London SW1

Hypocrisy and problem of age discrimination

From Mr Daniel Vulliamy.

Sir, The Department of Employment has recently been urging employers to be less discriminatory in respect of age in their employment practices. Now we learn that the department's own staff are "unhelpful, unsympathetic and dismissive" towards older job seekers ("Jobcentres accused of age discrimination", August 14).

It is frankly hypocritical of the government to bemoan continued age discrimination by employers when it practises such discrimination itself and when it has just removed the only legal weapon against some forms of age discrimination in employment.

The 1972 Industrial Relations Code of Practice contained a clause requiring management to ensure its employment policies in respect of recruitment, terms and conditions, training, promotion and dismissal were not influenced by conditions relating to age or other personal factors, except where directly relevant to the job.

Codes of practice are not themselves law, but are admissible in law. The effect was that the 1972 code could be used to win unfair dismissal cases where selection for redundancy was based on age, but not to challenge age discrimination in recruitment or promotion for which there is no framework legislation. Rather than strengthening legal restrictions on age discrimination in employment, the government revoked the code in June of this year. As a result, the only forms of age discrimination which can be challenged are those which amount to sex discrimination (for example, the imposition of age conditions in recruitment which exclude most women who have taken career breaks to raise children; or discriminatory retirement ages).

The final irony was that the government justified abandoning the code on the ground that it was "obsolete" and an "anachronism".

Daniel Vulliamy,
Department of Adult Education,
University of Hull

Unemployed not sign of labour market flexibility

From Mr Chris Dillow.

Sir, James Barty (Letters, August 23) is wrong to claim that the number of unemployed people finding work is a sign of labour market flexibility. Although 20 per cent more people left the unemployment register in July this year than a year ago, this increase may not have been due to more people finding work; indeed, given that (recorded) vacancies have continued to fall, this is unlikely.

Instead, they could have joined a training scheme, withdrawn their claim because of the crackdown on benefit fraud, or simply been discouraged by high unemployment from looking for work.

Even if more people are finding work, this could merely be evidence of a recovery, rather than of labour market flexibility. Moreover, the flexibility Mr Barty has in mind seems to be increased labour market turnover. Is this really a good thing? Such high turnover is characteristic of casual, unskilled jobs. Are these the foundation on which to base a sustainable recovery?

Therefore Mr Barty appears to have drawn a false conclusion from an incorrect premise. This is one of the few ways to find evidence of greater labour market flexibility.

Chris Dillow,
UK economist,
Nomura Research Institute Europe,
Nomura House,
1 St Martin's-le-Grand,
London EC1

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

FINANCIAL TIMES
Thursday August 29 1991

Serb and Croat officials seek European support for conflicting territorial claims

Fresh fighting ends Yugoslav ceasefire

By Laura Silber in Belgrade, **Robert Mauthner** in Paris and **David Goodhart** in Bonn

THE agreement between the Yugoslav federal army and the breakaway government of Croatia to impose a ceasefire collapsed within hours yesterday after fighting broke out again in the eastern town of Vukovar.

The breakdown confirmed a widespread belief among western diplomats that any implementation of a lasting ceasefire by the Yugoslavs, or mediation by the European Community, is now impossible to enforce.

Croatian radio said a cameraman from Croatian television was killed in a combined infantry and tank attack launched by the federal army on villages around Vukovar.

The Yugoslav army, for its part, denied claims by Croatia that its tanks and aircraft had been destroyed by Croat security forces. The renewed fighting coincided with a fresh diplomatic effort in European capitals by the Croat and Serb governments, the two protagonists in the crisis.

In Paris Mr Franjo Tudjman, Croatia's president, said he accepted "in principle" the European Community's offer to send a five-member arbitration mission to Yugoslavia to prevent an extension of the civil war.

According to French officials, the arbitration mission should give priority to a mutually acceptable definition of the frontier between Serbia and Croatia, before applying itself to a wider solution of the Yugoslav problem. Croatia has repeatedly accused Serbia, backed by the federal army, of carving a Greater Serbia out of Croatian territory.

The Serbs accuse the Croatian government of discriminating against the 600,000-strong Serb minority, some of whom do not want to live in an independent Croatia.

Croatia and Slovenia declared their independence on June 25, and since then have been attempting to seek international recognition.

Mr Tudjman, who was speaking after a meeting with French president François Mitterrand, stressed that Croatia had always supported "Europe's intervention" to help restore peace in Yugoslavia. But he later added that Croatia "has the intention to continue for the liberation of its territory." Almost 20 per cent of Croatia's territory has been seized by Serb nationalists.

Mr Mitterrand told Mr Tudjamn that, while France did not object to "the legitimate aspirations" of the Yugoslav peoples, those aspirations should be achieved peacefully.

Mr Mitterrand is expected to meet Mr Slobodan Milosevic, the Serbian president, later this week. But officials said the French president did not in any way want to pre-empt the EC's arbitration efforts, which France supported.

In Bonn, Mr Vladimir Jovanovic, Serbia's foreign minister, said the unilateral declarations of independence by Slovenia and Croatia had contravened the recently convened Conference on Security and Co-operation in Europe (CSCE).

After meeting Mr Hans-Dietrich Genscher, the German foreign minister, Mr Jovanovic said that Serbia was not involved in the war in Croatia, but was giving only financial and moral support to the Serb minority in Croatia.

"We have no territorial pretensions and no policy of expansion," he said.

Media grip, Page 4;
Editorial Comment, Page 12

Police warning over Tokyo scandal

By Stefan Wagstyl in Tokyo

JAPANESE police yesterday delivered an unprecedented formal warning to the banking and securities industries to stop dealing with gangsters.

The National Police Agency urged banks and securities companies to establish watchdog organisations to monitor dealings with suspect customers in order to cut off the supply of finance from criminal organisations.

The warning came on the eve of two days of parliamentary hearings in which top representatives of securities companies and banks are to be questioned about recent financial scandals, including contacts with gangster groups.

The scandals have provoked public outrage about the scale of the funds that criminal groups were able to raise for investments in property and in the stock market.

A specific case that has come to light involves Nomura Securities and Nikko Securities, two of the largest stockbroking companies, which lent money through subsidiaries to a company controlled by Mr Susumu Ishii, a former gangster chief. Police are investigating claims that Mr Ishii used the funds for cornering stock in Tokyu Corporation, a leading railway company.

The police sent letters to the Japan Securities Dealers Association and to the Federation of Bankers Associations of Japan, the principal industry organisations.

The two industries were urged to establish joint committees with the police to study measures for breaking links between large financial institutions and criminal groups.

The industry groups said they would distribute copies of the police letter to their members and consider setting up monitoring bodies.

In addition, Mr Akira Fukita, chairman of the National Police Safety Commission, a police supervisory committee, called for a law to permit the confiscation of the illegal profits of criminal organisations. Gangster groups in Japan operate a range of legal businesses – such as property development – and illegal ones, including prostitution and protection rackets.

Meanwhile, the top financiers who are to submit themselves to questioning before the Diet (parliament) have spent the past few days in preparation.

They will keen to create the impression that their companies recognise their wrongdoing and are determined to make amends. They realise that stonewalling will not be sufficient. However, they want to avoid revealing fresh details of the affairs which involve paying stock-loss compensation to clients and illegal bank loans as well as links with gangsters.

The two who are due to appear today are Mr Setsuya Tabuchi, the former chairman of Nomura, and Mr Takuya Iwasaki, the former president of Nikko. They will be followed tomorrow by Mr Yoh Kurosawa, president of Industrial Bank of Japan, Mr Toru Hashimoto, president of Fuji Bank, and Mr Sotoo Tatsumi, president of Sumitomo Bank.

They follow testimony by public officials such as Mr Yasushi Mieno, the governor of the Bank of Japan, who told the hearing yesterday that inspections last year and in 1989 failed to uncover any improper payments by brokers.

Police investigations, Page 5

Yasushi Mieno, governor of the Bank of Japan, testifies at a parliamentary committee hearing yesterday

India seeks fresh loan from IMF

By David Housego and Alexander Nicoll in New Delhi

INDIA is to seek a substantial fresh loan from the International Monetary Fund under terms that would include increasingly close IMF monitoring of the country's programme for economic stabilisation and structural reform.

Dr Manmohan Singh, finance minister, disclosed in an interview with the Financial Times yesterday that India would seek a further three-year loan from the IMF under its Extended Fund Facility (EFF) in the wake of the \$2bn-\$2.3bn standby credit that is under negotiation.

The IMF board is expected to to give its approval to the standby credit in late September. This would formally release delayed funds and could ease India's acute problems of borrowing in international commercial markets.

But Dr Singh said India would seek a further substantial EFF loan. "There is no doubt in our mind about our going for it." He was responding to queries about whether the government was having second thoughts on the political risks of a loan that brings the economy under close IMF supervision over the three years. An EFF loan could provide India with \$5bn-\$7bn over three years – but would take a year to negotiate.

The importance of the EFF borrowing is that it provides some guarantee to aid donor nations and to banks that India would carry through the structural reforms on which it has only just embarked.

Banks sell-off rejected, Page 4

THE LEX COLUMN

Recovering from deregulation

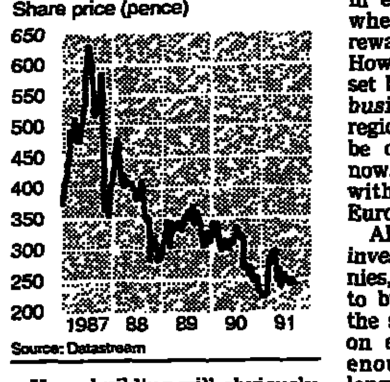
The latest National Institute Economic Review is interesting less for its economic forecast – which broadly echoes last week's offering from the CBI – than for its contribution to the debate on the impact of financial deregulation. This recession has been painful, says an article by Mr J R Sargent, not so much because the economy has contracted further than in 1980-81, but because it has been associated with an abnormally high level of insolvencies. These are the product of excessive borrowing in the late 1980s, in turn made possible by financial deregulation and fuelled by exaggerated economic expectations.

Whatever one thinks about Mr Sargent's conclusion that deregulation is still on balance beneficial, his analysis does contain some caveats for investors who are banking on a return to steady, sustained economic growth.

The first is that deregulation has led to heavy reliance on interest rates as a policy tool, and they are a singularly blunt instrument despite the supposedly stabilising influences of the Exchange Rate Mechanism. That may be a well-rehearsed argument, but it lends extra weight to a second point. The corporate sector has yet to decide on an appropriate debt-to-income ratio for an age of financial deregulation. Gearing would have to be substantially reduced to bring current ratios down to previous levels, and that would delay recovery. The upturn would be felt sooner if deregulation turns out to have left companies comfortable with higher gearing than before. But the extra debt on their books would leave the economy permanently more vulnerable to recessionary shock.

FT-SE Index: 2,624.2 (+4.4)

Alfred McAlpine



Source: Datastream

Alfred McAlpine

Perhaps it really is more fun in the real world. After yesterday's interim figures, though, not everyone will envy Mr Graeme Odgers his move from the number two slot at BT to the hot seat at Alfred McAlpine. A meagre £0.7m profit in the six months to end April, against £5m in the same period last year, underlined the contrast between cosy regulated returns in UK telecommunications and the vagaries of the country's housebuilding and construction industry. It also knocked another 3 per cent off McAlpine's share price as investors realised that recovery might be weaker and slower to arrive than they had hoped.

Housebuilding will obviously benefit from higher volumes in the traditionally busier second half. But with much of the land bank in the books at a value which implies break-even at current prices, a healthy contribution to profits from the division next year is only possible if house prices actually start to rise. Construction margins, meanwhile, are already coming under pressure, although McAlpine's exposure to the public sector makes it less vulnerable than most. With earnings per share likely to slip in 1992 as a result both of the recent rights issue and the 40 per cent minority stake in the housebuilding side, the shares hardly look cheap. The much talked about bid from Dumez is an implausible prop.

Asea Brown Boveri

Pity the competition. Given that half its markets are in recession, Asea Brown Boveri is in confident mood, forecasting that it expects to match last year's earnings. Scandinavia may have suffered badly in the downturn, but ABB's geographic reach has made it recession-resistant in aggregate. The electrical engineering group, which combines most activities of Asea of Sweden and Brown Boveri of Switzerland, increased interim pre-tax profits by 6 per cent to \$520m, thanks mainly to a return from its previously troubled US operations and a German-led jump in European sales.

Admittedly the order book was down a touch to \$14.5bn, suggesting that the second quarter saw an improved performance from competitors such as Siemens. But the group's confidence looks justified, even though the task of managing such a giant corporation is proving herculean – witness its struggle to improve operating margins and failure to prune working capital. ABB has made a heavy investment in eastern Europe, a strategy where the potentially high rewards are far from secure. However, that exposure is offset by the prospect of growing business from the Pacific region. Power engineering may be on a flat order trend for now, but that should change with recovery in Western Europe next year.

All of which is good news for investors in the parent companies, but not for those wanting to buy their way in. As ever, the shares of both parents are on earnings multiples steep enough to reflect ABB's long-term prospects.

Volvo

Volvo's share price has been a strong performer this year on the back of recovery hopes in the group's main car markets, plus expectations that the radical cost cutting programme would quickly drop through to the bottom line. Yesterday's dismal half year results – coupled with the chairman's warning that a third quarter operating profit is unlikely – provided an overdue dose of reality for the optimists. As expected the headline figure is flattered by the sale of the Saga stake; stripping out capital gains and extraordinary items, the real comparison is between profits of more than SKr2bn in 1990 and losses of around SKr400m this time.

Admittedly the news is by no means all bleak. Truck volumes on the back of German, Middle Eastern and Far Eastern demand have held up surprisingly well; a 10 per cent cut in the workforce should have been effected by the end of this year; and Procordia's encouraging performance implies a contribution of around SKr1.5bn to group profits in the second half. None of this alters the feeling that the shares are ahead of the game.

Brent Walker

The most worrying thing about the investigation into Brent Walker's affairs by the Serious Fraud Office must be the degree to which it could undermine the company's fragile restructuring plan. The balance of expectations, reflected in last night's partial recovery of the share price, is that it need not. But it has certainly given recalcitrant bondholders another excuse for prevarication if they care to use it.

US growth figures dent recovery hopes

By George Graham in Washington

GROWTH FIGURES released for the US yesterday damped belief that an economic recovery had begun this spring.

Revised figures from the Commerce Department showed the economy had contracted at an annual rate of 0.1 per cent in the second quarter of the year, reversing the estimate released last month, which had put growth at an annual rate of 0.4 per cent in the quarter.

The new statistics represent the third consecutive quarter of economic decline – although by much less than the falls of 2.8 per cent in the first quarter and of 1.6 per cent in the last quarter of 1990. However, economists said the details of the revised figures could lay the foundations for stronger economic activity in the third quarter.

The revision sent the dollar sharply lower. It closed at DM1.74 in London, down 2 pfennigs on its morning high, and was trading at DM1.7367 at midsession in New York.

Much of the downward revision in the GNP statistics was caused by a larger reduction in business inventories than estimated. Net imports were revised downwards, while output of producer durable goods was stronger than thought.

Economists have been debating whether the US economy can sustain a reasonably strong recovery or is heading for a "double-dip" recession.

While some recent economic statistics, such as figures for durable goods orders, have shown strong activity, many economists believe the Federal Reserve will wait until it has seen August's unemployment data before deciding if a further easing of monetary policy is needed to help the economy out of recession.

The preliminary GNP figures, to be revised again next month, showed personal consumption spending grew at an annual 2.8 per cent in the second quarter. Non-residential fixed investment fell at a rate of 1.8 per cent, but investment in producers' durable equipment grew at a rate of 2 per cent.

Currencies, Page 30

Soviets plan strategy for economy

Continued from Page 1

Russia, however, which has been accused of restoring a new kind of domination over other republics, yesterday undertook damage-limitation measures. It cancelled a decree appointing top Russian Federation officials to temporarily run Gosbank, the Finance and Economy Ministries, as well as Vneshekonombank, which is responsible for most Soviet foreign payments and servicing the \$62bn foreign debt.

It also dispatched a delegation to the Ukraine to soothe passions aroused there by Russian demands for a return of the Crimean peninsula if the Ukrainians left the Soviet Union.

The delegation, led by Mr Alexander Rutskoi, the Russian vice-president, was met by an angry crowd of anti-Yeltsin demonstrators in Kiev, as it went to see Mr Leonid Kravchuk, chairman of the Ukrainian parliament.

In Moscow, Mr Yeltsin revealed that nuclear weapons would be moved out of the Ukraine, which has proclaimed itself a nuclear-free zone as well as an independent republic, to the Russian Federation.

In a sign of another possible foreign policy surprise, Mr Georgy Kunadze, Russia's deputy foreign minister, said Mr Yeltsin intended to speed up negotiations to return the Kurile Islands to Japan and normalise relations with Tokyo, a potential donor of substantial economic aid.

Washington cleared deals with Iran, Syria

By George Graham

THE US Commerce Department has licensed more than \$300m of high-technology exports to Iran and Syria over the last three years. This has taken place despite rules prohibiting the sale of such sensitive equipment to these countries because of their perceived support for terrorism.

The exports included computers, aircraft parts, compasses and radar equipment which have legitimate civilian uses but which also have a potential military application.

The US has sought to repair its relations with these two countries in recent months. Iran is seen as a key to the release of western hostages held in Lebanon, while Syria played an important role during the Gulf war and remains crucial to prospects for Middle East peace talks.

A Commerce Department official refused to comment on specific export licences, but said all past licences to Iran and Syria were consistently decided in accordance with US administration policy.

Many of the items, however, are listed among those with dual military and civilian uses for which licences are normally denied.

Syria has been labelled by the US as a state supporting international terrorism since 1979, and Iran since 1984. Licences are reviewed to ensure US exports do not "enhance their ability to support acts of international terrorism or assist their military potential."

According to the Associated Press (AP), the Commerce Department granted licences for \$282.4m of exports to Iran between October 1987 and September 1990, and for \$23.5m to Syria.

Nearly half of these exports were of computers, including a \$3.9m computer destined for the Iranian interior ministry. The computer was said to be for census use but some technology export specialists are critical of the sale of such equipment, which could be used for police purposes.

A computer was also licensed for sale to the Syrian government for "criminal-personal" files, according to AP.

The department also licensed the sale of \$74m of aircraft parts to Iran, mostly for the repair of Boeing 747 aircraft owned by Iran Air but also for the supply of US parts to be included in aircraft built in the Netherlands for Iran.

The US recently aroused controversy by refusing an export licence for the sale of British Aerospace aircraft to Iran on the grounds that they contained US-made parts.

Commerce Department officials said exports including logic analysers, oscilloscopes and personal computers were approved on the basis of the sanctity of existing contracts, while parts for the repair of civilian aircraft were regarded as ensuring public safety.

Cryptographic equipment was licensed because its capability was limited to use in bank teller machines, and could not be diverted to military purposes.

They noted that in the same period the department had also rejected or returned without action applications for a further \$39.5m of exports to Syria and \$295.7m to Iran.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	S	29	84
Algiers	S	35	95
Amsterdam	F	19	66
Athens	F	30	86
Bahrain	S	36	97
Bangkok	C	31	88
Barcelona	S	29	84
Beirut	S	30	86
Belfast	C	18	64
Belgrade	F	21	70
Berlin	C	16	61
Biarritz	S	29	84
Bombay	F	29	84
Bordeaux	S	32	90
Boulogne	S	23	73
Brussels	F	22	72
Budapest	F	22	72
Buenos Aires	F	17	63
Cairo	S	32	90
Cape Town	C	12	54
Caracas	R	29	84
Casablanca	F	25	77
Chicago	S	22	72
Cologne	S	21	70
Copenhagen	S	21	70
Corfu	S	30	86
Dallas	S	22	72
Dublin	F	23	73
Dubrovnik	S	26	79
Edinburgh	C	17	63
Faro	S	25	77
Florence	S	31	88
Frankfurt	S	24	75
Geneva	S	25	77
Gibraltar	F	27	81
Glasgow	C	17	63
Helsinki	T	20	68
Hong Kong	F	29	84
Innsbruck	S	22	72
Inverness	S	19	66
Islamabad	C	29	84
Istanbul	F	20	68
Jakarta	F	32	90
Jersey	S	21	70
Johannesburg	S	25	77
Lima	C	18	64
Lisbon	F	23	73
London	F	22	72
Los Angeles	S	17	63
Luxembourg	S	23	73
Madeira	S	26	79
Madrid	S	31	88
Majorca	S	33	91
Malaga	F	28	82
Malta	S	32	90
Manchester	S	20	68
Manila	C	30	86
Melbourne	S	13	55
Mexico City	R	24	75
Miami	S	26	79
Milan		–	–
Montreal	F	22	72
Moscow	R	15	59
Munich	F	22	72
Nairobi	F	24	75
Naples	S	31	88
Nassau	F	32	90
New Delhi	F	26	79
New York	S	26	79
Nice	F	29	84
Nicosia	S	27	81
Oporto	F	25	77
Oslo	F	19	66
Paris	S	25	77
Peking	C	26	79
Prague	F	19	66
Reykjavik	C	12	54
Rhodes	S	28	82
Rio de Janeiro	F	34	93
Rome	S	30	86
Salzburg	F	22	72
San Francisco	C	17	63
Seoul	S	29	84
Singapore	F	30	86
Stockholm	F	15	59
Strasbourg	S	26	79
Sydney	F	20	68
Taipei	C	30	86
Tangier	F	26	79
Tel Aviv	F	30	86
Tenerife	S	28	82
Tokyo	S	27	81
Toronto	S	21	70
Tunis	S	34	93
Valencia	F	34	93
Venice	S	25	77
Vienna	F	21	70
Warsaw	F	18	64
Washington	S	23	73
Zurich	S	23	73

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday August 29 1991

INSIDE

Moody's downgrades Salomon debt rating

Moody's Investors Service, the New York ratings agency, yesterday lowered its ratings of Salomon Brothers' debt in the wake of the Treasury auction-rigging scandal that has engulfed the big securities house. Page 18

ABB increases profits

Asea Brown Boveri, Europe's biggest electrical engineering group, lifted profits after financial items by 8 per cent to $520m during the first half of 1991. Page 16

Cathay Pacific drops 21%

Cathay Pacific Airways, the Hong Kong international air carrier controlled by Swire Pacific, reported a 21.7 per cent fall in interim profits to HK$1.1bn (US$141.8m). Page 17

Twilight for plantations

Malaysia's plantation industry is entering its twilight years. Even the country's largest plantation group, and one of its oldest, has joined the rush into property. Page 22

Hambros stake sold for £46m

Banco Bilbao Vizcaya, the Spanish bank, yesterday ended its five-year relationship with Hambros by selling a fully-diluted stake of 7.3 per cent in the London merchant bank for £46m ($77.28). Page 16

Elite seeks Mexican banks

Mexico's financial elite is at the point of regaining control of the country's banking system, nine years after having its banks seized by the government. Page 18

Alfred Mc Alpine starts season

Alfred McAlpine yesterday kicked off what is expected to be the worst-ever results season for British construction companies by saying halfway pre-tax profits fell to £700,000 from £4.99m ($8.38m). Page 18

Holmes Protection in appeal

The board of Holmes Protection, the US-based security and alarm company listed in London, asked shareholders to back its debt-restructuring plan and oppose a management coup tried by a group owning nearly 27 per cent of the equity. Page 19

Wace blemishes its record

Wace Group, the UK pre-press and printing concern, yesterday unveiled the first serious blemish in its impressive growth record when it announced a 34 per cent fall in interim profits. Page 19

Mersey Docks expands services

The Mersey Docks and Harbour Company increased interim pre-tax profit by more than 12 per cent to £5.46m ($9.17m) after expanding its services. It provided for losing £700,000 with the Bank of Credit and Commerce International. Page 20

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Hertie	407.5	+	6.5
PWA	269	+	5
Volkswagen Pri	324	+	6
Falls			
DLW	548	−	5
Didier-Werke	179	−	5
Porsche	745	−	10

NEW YORK ($)			
Rises			
Bolar Pharmctl	8	+	2½
Latin Amer Inv	28⅞	+	2⅛
Liposome	11	+	1
Smithkline	88⅜	+	1⅜
Telefonos	37½	+	¾
Falls			
Fuqua	10⅝	−	⅞

PARIS (FFr)			
Rises			
From C at Auv	2415	+	75
Paris Reescomp	265	+	12.9
Spie Batignolles	510	+	26
UFB Locabail	314.5	+	14.5
Falls			
Fonc Lyonnaise	690	−	38
Schneider	721	−	27

TOKYO (Yen)			
Rises			
Chugoku Marine	680	+	47
Dainippon I & C	510	+	35
Hokko Chemical	1160	+	90
Falls			
Katsumura Cons	1010	−	80
Mori Seiki	2070	−	240
Nissan Shatai	550	−	50

New York prices as at 12:30.

LONDON (Pence)			
Rises			
Capital Radio	202	+	7
Cookson	122	+	6
Costain	143	+	7
Daejan	745	+	17
Euro Disney	1365	+	27
Fairline Boats	483	+	15
Greenalls	357	+	9
Halma	146	+	9
LOFS	103	+	9
Wates City Lon	115	+	6
Falls			
ADT	480	−	21
Bredero Props	59	−	3
Brent Walker	20½	−	1
GRE	181	−	5
McAlpine (A)	245	−	7
Monarch Res	113	−	10
Wace	251	−	7

Volvo saved from loss by Saga sale

By John Burton in Stockholm

VOLVO, the Swedish vehicle group, yesterday reported a 68 per cent fall in pre-tax profits to SKr658m ($103.8m) for the first half of 1991. The company was saved from a loss by a profit on the sale last June of an investment in Saga Petroleum, Norway's biggest listed oil company.

The company suffered an operating loss of SKr559m during the six months compared with an operating profit of SKr1.37bn in the previous corresponding period. During the past 12 months Volvo has accumulated operating losses of SKr1.36bn.

But yesterday's report indicated that Volvo's performance is improving. Operating losses during the second quarter were SKr162m against a deficit of SKr397m in the first quarter.

The shutdown of a truck plant in Ogden, Utah, contributed SKr200m to the operating loss in the second quarter.

As part of a programme to dispose of low-yielding assets, the carmaker netted SKr1bn in capital gains from the sale of 11.9m shares in Saga Petroleum to Statoil, the state Norwegian oil company. Another 4.8m Saga shares were sold last month

Mr Lennart Jeansson, head of the car division, is cautious: "The third quarter is traditionally weak, while a recovery of car sales will depend upon whether there is an improvement in the US economy.

"Even if that happens, the market for cars and trucks in the US will remain tough with a consequent squeeze on profits."

Group sales fell 15 per cent to SKr37.9bn, while earnings after financial items declined by 44 per cent to SKr1.15bn.

Car sales fell 12 per cent to SKr18.7bn, with Volvo delivering 166,000 cars against 198,000 a year ago.

Demand for the 850 GLT introduced in Sweden in June had exceeded expectations, said Mr Jeansson, and Volvo planned to start delivering it to the rest of Europe later this year. Although the car division continues to suffer losses, there was an improvement in the second quarter.

Truck and bus sales fell by 4 per cent in the first half to SKr11.25bn and SKr1.7bn respectively, although truck sales rose by 5 per cent in the second quarter to SKr6.35bn.

The truck division continues to generate positive earnings, with higher profits in the second quarter. Increased demand for trucks in the Middle East, Asia and eastern Europe compensated for a decline in the US and western Europe, except Germany, where demand is strong. Truck volume in the first half fell from 27,000 to 25,500 vehicles.

Next week Coats Viyella publishes its first results since winning Tootal

Unravelling the fate of the thread empire

By Alice Rawsthorn

THROUGHOUT the spring and early summer, the City of London was treated to the spectacle of Coats Viyella and Tootal, two of Britain's biggest textile groups, battling in an often acrimonious takeover bid.

Next Wednesday the City of London will observe the more restrained affair of Coats publishing its first set of results since it won the fight for control of Tootal.

The results, like those of all the other recession-struck textile companies that have reported recently, will not make riveting reading. Analysts anticipate a fall in pre-tax profits from £55m to below £50m ($83.5m) for the first six months of this year.

But the City is more interested in Coats' future. It is now more than three months since Coats took over Tootal. Already there have been a stream of staff departures.

All but one of Tootal's main board directors have left or are about to leave. Coats has also announced a number of factory closures. How is it coping with the integration of Tootal?

Mr Neville Bain, drafted into Coats from Cadbury Schweppes as group chief executive only a few months before the bid, claimed Coats was coping well.

"We did our homework and Tootal has delivered exactly what we expected," he said. "There have been no black holes and no big surprises."

The chief attraction of Tootal for Coats was its sewing thread interests. For decades Coats and Tootal dominated the world thread market. The bid offered an opportunity to combine their interests into one global power. Coats was also keen to add some of Tootal's clothing companies to its own.

Coats's strategy in both sectors is to merge its interests with those of Tootal thereby boosting profitability by achieving economies of scale in production and by pooling administration and distribution.

The risk inherent in this strategy is that, in some thread markets, notably the US and the UK, the combined market share would be so high that some customers might switch to other suppliers because of their fear that Coats could use its dominant position to dictate terms and raise prices.

Similarly in clothing, Coats ran the risk of losing orders from the UK retailer Marks and Spencer, its main customer, as it would be supplying more than 50 per cent of some ranges, notably women's trousers and men's shirts.

Analysts were also concerned that Coats, which had problems integrating past acquisitions, such as the Coats Patons textile empire, did not have the managerial strength to orchestrate a complex merger with Tootal.

This concern was only partly allayed by the appointment of Mr Bain, who was seen as strong on strategy, as a balance to Sir David Alliance, Coats's chairman, a renowned deal maker with little appetite for integration.

If the merger does run into difficulties, Coats would be left in a weak position, particularly in thread production, which is such a highly leveraged business that any disruption would have an exaggerated effect on profits.

So far, said Mr Bain, these fears have proved unfounded. Coats has already completed the integration of the consumer thread companies in the US and Europe by combining administration and sales and by rationalising production.

The integration of the industrial thread interests will take rather longer. Most of the sales teams have merged, except for in the UK, and to a lesser extent the US.

Coats has already announced some cuts in manufacturing capacity and is now considering further rationalisation.

Mr Bain believes it will take another year to complete the integration, but that Coats will then achieve annual savings of £10m to £12m.

He is also confident that the eventual loss of share in thread will be less than the 10 per cent originally expected. In the US, for example, he claimed that Coats had gained share since the merger.

Coats hopes to minimise loss of sales in clothing by selling some of the Tootal companies. It is also restructuring and rationalising the two groups' overseas sourcing interests to focus on clothing. It hopes to sell other "peripheral" businesses, such as specialised materials.

The main problems since the merger, according to Mr Bain, have been the thread business in South Korea and Dundee Textiles, a Scottish finishing plant set up as a joint venture between Tootal and two Japanese textile groups, both of which have performed poorly.

Neville Bain, chief executive

COATS VIYELLA

Forecast for year to December
£million

	1991*	1992
Coats Viyella pre-tax profit	105	123
Tootal pre-tax profit	18	30
Merger (costs) / benefits	(5)	5
Financing costs (@ 12% interest)	(8)	(13)
PRE-TAX	110	145
EPS Fully Diluted	9.4p	15.5p

Source: James Capel

*Includes Tootal for 7 months

On the financial front, analysts estimate Coats' gearing at 40 per cent – or 52 per cent if a convertible preference issue is defined as debt – at the end of the first half. Gearing should fall to below 30 per cent – or 42 per cent – by the year-end if disposals go according to plan. In the meantime, Coats, like the rest of the international textile industry, is anxiously awaiting the end of the recession. For it is only then that Coats will discover whether it was worth fighting the bitter battle for Tootal.

Renault half-year profits fall 65%

By Kevin Done, Motor Industry Correspondent

RENAULT, the French state-owned carmaker, suffered a 65.4 per cent fall in pre-tax profits in the first half of the year in the face of increased competition in the western European car and truck market and falling sales of trucks in the US.

Renault, in which Volvo of Sweden holds a 20 per cent stake, said its pre-tax profits in the first half fell to FFr962m ($161m) from FFr2.778bn in the corresponding period a year ago.

The company said that "in spite of a difficult commercial environment" turnover for the whole of 1991 would be higher than a year ago. Renault said it would achieve a pre-tax profit in the full year because of "an increasing volume of business in the second half of the year".

Group turnover in the first six months fell to FFr83.23bn from FFr87.49bn in the same period a year ago (or FFr86.3bn on a comparable consolidation). The car and van operations accounted for 80.7 per cent of group turnover compared with 78.9 per cent a year ago, while the share taken by trucks and buses fell to 16.2 per cent from 18 per cent.

Group operating income in the first half at FFr1.52bn was 63.8 per cent lower than the FFr4.2bn achieved a year ago.

Renault blamed declining sales in the UK, France and Spain. New car sales in all three markets have plunged in the first six months of the year.

Its car sales in France dropped by 22.3 per cent to 259,534 compared with a fall in the overall market of 16.6 per cent. Renault's UK sales declined by 21.8 per cent to 29,849.

Renault's output of cars and vans fell an estimated 7 per cent in the first half of the year from the same period a year ago, as the company cut the overall volume of deliveries to European markets.

Its new car registrations overall in western Europe, however, rose by 2.1 per cent to 734,249 thanks to the strength of its sales in the unified German markets. Its car sales in Germany jumped by 140.9 per cent to 137,040 in the first half of the year and compensated for the sharp declines elsewhere.

Renault said that its operating income was also hit hard by the "severely deteriorating commercial environment in the European and American truck markets". The turnover of Mack, its US heavy truck subsidiary, fell by 30 per cent in a market where overall volume sales also dropped by 30 per cent.

Brent Walker board calls in fraud investigators

By Andrew Bolger and Robert Peston in London

THE BRITISH Serious Fraud Office launched an investigation into the affairs of Brent Walker yesterday, at the invitation of directors of the highly indebted UK property and leisure group.

Lord Kindersley, new chairman of Brent Walker, insisted that current operations of the group were unaffected. He was confident that the investigations would not interfere with the long-delayed refinancing of the group, which has debts exceeding £1.3bn ($2.1bn).

However, some of Brent Walker's 47 banks said they needed more information on the scope of the investigation before they could agree to the refinancing.

"The banks will need to think again about supporting the company", said a director of a big international bank. "At the very least, there is going to be a hiccup".

However, Standard Chartered, which heads the banks' steering committee, said it had not been surprised that the SFO was called in. It remained optimistic that Brent Walker would avoid being put into liquidation.

George Walker, the founder of Brent Walker who was deposed as chief executive at the end of May, said last night that he had no idea why the company had asked for an SFO investigation. However, he would do all he could to help the SFO.

Mr Walker remains a director of BW, despite attempts by the company's banks to remove him. He hopes to learn more about the reasons for the investigation at a board meeting planned for today.

Brent Walker directors took the decision to call in the SFO after internal investigations last week uncovered what the company described as "significant evidence" of apparent fraud. Officers arrived at the company's office in London's West End at 9.30 yesterday morning.

One Brent Walker director said that "something came to light which meant that one had to go to the SFO". The SFO has asked the company not to disclose further details of the enquiry.

One of the company's bankers said Brent Walker had uncovered "specific and tangible" signs of wrongdoing on two or three fronts.

One of these involved the company's dealings with Walker Power, a joint venture between Brent Walker and Power Corporation, the Republic of Ireland-based property developer. But there is no suggestion that Power Corporation is implicated in the inquiry.

Brent Walker's network of subsidiary companies, in the UK and overseas, is immensely complicated.

After the company ran into financial difficulties at the end of last year, it needed more than six months to draft a reliable statement of its financial condition.

Two Italian stockbrokers collapse

By Haig Simonian in Milan

TWO SMALL Italian stockbrokers yesterday declared insolvency, becoming the first major casualties in the L100bn ($76.6m) alleged share fraud involving Banque Duménil Leblé (Suisse), the Swiss bank controlled by Mr Carlo De Benedetti.

Studio Adorno of Milan and Studio Montalcini of Turin said they were unable to deliver shares worth L52bn and L18.5bn, respectively, ahead of tomorrow's scheduled bourse settlement date.

The insolvencies will trigger a mechanism whereby their commitments will be assumed by the stockbrokers' commitees at the two bourses. It is likely that tomorrow's settlement date will now be postponed.

The insolvencies follow the discovery by Banque Duménil Leblé (Suisse) of an alleged fraud, involving shares worth around L100bn.

According to the bank, the shares, ostensibly put up as collateral against loans, were part of an elaborate scam by Dominion Trust, a Turin company. Dominion Trust is not connected with the big Canadian financial services group of the same name.

Duménil Leblé maintains it never possessed the shares, although Assets Development Bank, which it bought in July, maintained a clearing relationship with Dominion Trust.

Earlier this week, Swiss magistrates froze any delivery of shares pending further investigations.

Both brokers are small, although Studio Adorno has some sizeable clients. Its head, Mr Giovanni Adorno, is known as one of the "characters" of the Milan bourse owing to his often-outrageuos remarks and eccentric dress.

One colleague claims he had recently been predicting his firm's imminent demise, but was not taken seriously.

Brokers were pessimistic about the impact of the affair on Italian equities and the image of the market yesterday, as volume on the bourse plunged to L40bn.

BBV sells 7.3% stake in Hambros

By Robert Peston in London

BANCO Bilbao Vizcaya, the Spanish bank, yesterday ended its five-year relationship with Hambros by selling a fully-diluted stake of 7.3 per cent in the London merchant bank for £46m.($77.3m)

BBV was one of the founder-members of Hambros' network of foreign partners. Hambros said the sale by BBV was not damaging to its aim of building international business through the network.

The shares were placed with investment institutions by Warburg Securities, the stockbroker. Other brokers said the sale to institutions of such a big stake would remove some of the speculation that Hambros was vulnerable to a takeover bid. The BBV stake has been available for many months. Another big stake, which also could have been acquired by a predator, was sold in April to investors by Baltica, the Danish insurance group.

Warburg sold 9.76m ordinary shares for 274p each and 16.7m convertible preference shares for 116.5p each. Hambros shares closed last night unchanged at 288p.

In 1986, Hambros started to form relationships with foreign banks to win international business.

It was particularly keen to acquire work advising foreign companies on mergers and acquisitions and to manage funds for foreign investors.

One of the founder-members of this group of foreign banks, which Hambros calls its network partners, was Banco de Bilbao. However, the development of new business in conjunction with Bilbao received a setback in early 1988 when the Spanish bank merged with its rival, Banco de Vizcaya, according to Sir Adam Ridley, a Hambros director.

Directors of Bilbao and Vizcaya concentrated on making the merger work and the relationship with Hambros was of secondary importance.

By the middle of last year, both BBV and Hambros became convinced that BBV was unlikely to become an effective contributor to Hambro's international network. BBV had by then started to contemplate selling the stake, if a buyer could be found.

Five months ago, Mr Mas Montanes gave up his position as BBV's representative on Hambros' board. The collaboration agreement between Hambros and BBV was ended.

Sir Adam stressed, however, that Hambros remains committed to maintaining the rest of its international network. Other members of it are Belgium's Kredietbank, Toronto Dominion Securities of Canada, Bayerische Vereinsbank in Germany, Sanpaolo in Italy and three others.

Procordia ahead 25% halfway

PROCORDIA, the Swedish pharmaceutical and food group, has slightly exceeded market expectations with a rise in profits after financial items of 25 per cent to SKr2.1bn ($331m) for the first half of 1991, writes John Burton in Stockholm.

Operating profits improved 30 per cent to SKr2bn, while sales increased 7 per cent to SKr19.4bn. The group repeated its forecast that earnings for the year would surpass its pro forma 1989 result of SKr3.5bn.

Profits fell to SKr2bn last year due to restructuring costs associated with Procordia's takeover of Pharmacia and Provendor, the drug and food subsidiaries respectively of Volvo, the main shareholder in the enlarged concern with the state.

Kabi Pharmacia, the therapeutic drug group, had a 30 per cent rise in operating profits to SKr1.1bn, reflecting a sales increase of 15 per cent to SKr4.8bn and a reduction in its workforce.

Pharmacia Biosystems, the biotechnology unit that suffered losses last year, had operating profits of SKr177m against SKr83m as costs were brought under control.

Total operating earnings for the food divisions fell by 7 per cent to SKr895m, although sales increased 9 per cent to SKr10.5bn.

Lufthansa slips due to Gulf war

By Andrew Fisher in Frankfurt

LUFTHANSA, the German national airline, yesterday reported a pre-tax loss of DM331m ($189m) for the first half of 1991 compared with a loss of DM3m in the same period of last year. However, the result was a big improvement on the first quarter, when the airline suffered from the effect of the Gulf war.

After a loss of DM475m in the January to March period, the airline made a profit of DM145m in the following three months, reflecting a sharp rise in domestic traffic and favourable currency trends. Slightly more than half Lufthansa's shares are state-owned.

Turnover was 11.1 per cent higher at DM6.6bn; in the second quarter, turnover advanced by 18 per cent. Passenger numbers rose by 8 per cent in the half to 11.3m, with a 6 per cent rise in freight to 465,500 tonnes. The number of flights increased 20 per cent to 163,626, with staffing up 6 per cent to nearly 50,000 people.

Lufthansa said about half its planned investment of DM3bn this year would be financed from cash flow. The rest would be met by the proceeds of two Eurobond issues of DM500m each made in January, and leasing finance for aircraft.

Incentive to sell seven subsidiaries

INCENTIVE, the Swedish industrial group, is to sell seven subsidiaries, including the glassware companies Orrefors and Kosta Boda, as part of a rationalisation programme, writes John Burton.

The group, which was introduced on the Stockholm bourse last month after separating from parent company Asea, said profits in the 1991 first half fell by 27 per cent to SKr199m on sales of SKr7.2bn ($1.1bn).

The divestment of the subsidiaries, which have a total income of SKr4bn, will allow Incentive to concentrate on its core industrial activities, such as tracked vehicles and the camera company Hasselblad.

Proceeds from the sale will be used to buy other industrial companies, mostly outside Sweden, said Mr Mikael Lilius, Incentive president.

Sharp reverse at Alfred McAlpine

ALFRED McAlpine yesterday kicked off what is expected to be one of the worst results season for British construction companies with the announcement that pre-tax profits fell to £700,000 ($1.2m) from £4.9m for the six months to April, writes Andrew Taylor in London.

The company's UK housebuilding division made a pre-tax loss of £2.7m compared with a profit of £3m at the corresponding stage last year.

McAlpine's share price slipped 7p to 245p in London after the company said it would have to dip into reserves to maintain the interim dividend of 4.5p. Earnings per share slipped from 6.4p to 2.8p.

Mr Graeme Odgers, chief executive, said the UK construction sector was in a severe recession. Company profits would remain flat for at least another 18 months.

But profits this year were expected to be ahead of the £9.2m for the year to October 1990 as the company did not expect to make further provisions for potential housebuilding losses. Last year the group wrote down the value of its housing landbank by £7m.

US contracting and minerals profits fell from £1.3m to £392,000. But UK minerals profits rose from £440,000 to £1.3m.

Lex, Page 14

Results at Hoesch plunge in first half

By Christopher Parkes in Bonn

FIRST-HALF profits at Hoesch, the Dortmund-based steel and engineering group, tumbled to DM140m ($80m) from DM412m in the first six months of 1990.

Worldwide sales, down by DM230m at DM8.02bn, were sustained by the inclusion for the first time of contributions from recently-purchased companies, the group said.

Overseas turnover was static, while domestic sales dropped 11 per cent to DM1.77bn and orders were down 7 per cent at DM6.2bn.

The company said it expected a "satisfactory" result for the year despite poor economic conditions and continuing problems in the steel market. The first six months had seen further deterioration in most western markets.

Increasing labour costs and raw material prices, and unfavourable exchange rates, had all contributed to the setback.

Capital investment of DM579m in the first half was the same as last year, and the group is planning to maintain total spending in 1991 at DM900m.

Restructuring of the group, started by the late Mr Detlev Rohwedder, is expected to continue under the control of Mr Kajo Neukirchen, who took over as chief executive this month.

Mr Neukirchen has been credited with turning round the Klöckner-Humboldt-Deutz engineering concern.

● Feldmühle Nobel, the German conglomerate, yesterday reported a 24 per cent rise in pre-tax profits for the first six months of 1991.

Strong performances by the heating, plastics and aircraft components divisions more than offset weaknesses in the paper, steel and technical products businesses.

Profits were DM216m, compared with DM175m a year earlier, on turnover down 4 per cent at DM4.44bn.

Sales of heating products increased almost 40 per cent and turnover in aircraft components and plastics increased 29 per cent and 13 per cent respectively.

Two stockbrokers collapse following share fraud claim

By Haig Simonian in Milan

TWO SMALL Italian stockbrokers yesterday declared themselves insolvent, becoming the first big casualties in the L100bn ($76m) alleged share fraud involving Banque Dumenil Leble (Suisse), the Swiss bank controlled by Mr Carlo De Benedetti.

Studio Adorno, of Milan, and Studio Montalcini, of Turin, said they were unable to deliver shares worth L52bn and L18.5bn respectively ahead of tomorrow's scheduled bourse settlement date.

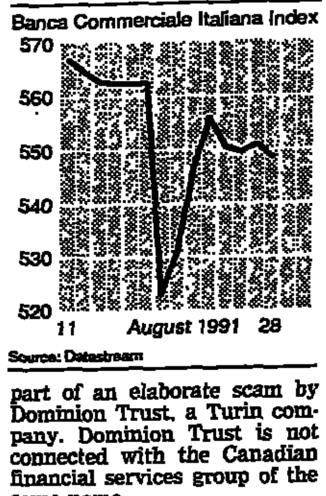
The insolvencies will trigger a mechanism whereby their commitments will be assumed by the stockbrokers' committees at the two bourses. It is now likely that Friday's settlement date will be postponed.

The insolvencies follow the discovery by Banque Dumenil Leble (Suisse) of an alleged fraud, involving shares worth about L100bn.

According to the bank, the shares, ostensibly put up as collateral against loans, were part of an elaborate scam by Dominion Trust, a Turin company. Dominion Trust is not connected with the Canadian financial services group of the same name.

Italy

Banca Commerciale Italiana Index



Source: Datastream

Dumenil Leble maintains that it never possessed the shares, although Assets Development Bank, which it bought in July, maintained a clearing relationship with Dominion Trust. This week, Swiss magistrates froze any delivery of shares pending further investigations.

Both brokers are small, although Studio Adorno has some sizeable clients. Its head, Mr Giovanni Adorno, is known as one of the "characters" of the Milan bourse owing to his often controversial remarks and eccentric dress.

Under Italian stock market rules, the two brokers' commitments will now be assumed by brokers' committees, which will set new average prices for the two brokers' trades. Any profit between the new average price and the original trading price will go to the committee, while losses will be borne by other brokers with which they traded.

Brokers were pessimistic about the repercussions of the affair for Italian equities and the image of the market, as volume on the Milan bourse plunged yesterday to L40bn.

Life insurance side lifts Aegon

By David Brown in Amsterdam

AEGON, the second largest insurance group in the Netherlands, yesterday reported a 16.6 per cent increase in net profits for the first half to Fl 416.9m ($212m) compared with Fl 357m in the year-ago period.

Aegon said total revenue advanced to Fl 6.99bn from Fl 6.44bn, an 8.6 per cent rise. Operating income climbed 13.5 per cent to Fl 336.4m from Fl 296.4m.

A strong performance in its life insurance sector in the US and the Netherlands, and fewer damage claims, contributed to the improved result.

Most parts of the business enlarged market share. Gains from the sale of equities and real estate climbed Fl 20m to Fl 81m during the period.

Due to weak economic conditions in the US, Aegon took a provision of Fl 20m to cover potential losses from its bond and mortgage portfolios, but North American revenues were up overall.

Results from newly-acquired units in the UK (Regency) and Belgium (Precam) are included in Aegon's 1991 results for the first time.

The company will pay an interim dividend of Fl 2.20, up 10 cents. The group repeated a forecast that year net earnings will be "moderately" higher than the Fl 749m achieved in 1990.

Mannesmann wins control of Boge

MANNESMANN, the German engineering group, has agreed to buy control of Boge, the German car components manufacturer, from an investment consortium led by Commerzbank, writes Andrew Fisher.

The deal pushes out a US company which had also shown an interest in buying the group.

Boge makes struts and shock absorbers, a field in which Fichtel und Sachs, a Mannesmann subsidiary, is also involved.

Mannesmann said the proposed acquisition would allow both companies to spread the development costs of vehicle systems across more products.

By agreeing to buy 50.1 per cent of Boge, which made a pre-tax loss of DM7m ($4m) in the first half of 1991 against a profit of DM8.5m in the same period last year, Mannesmann has thwarted the attempt of Arvin Industries of the US to take control.

Arvin complained last month that it was being blocked from pursuing a merger proposal with Boge, whose yearly turnover is DM750m, by Commerzbank. With VDO, the German instrument and components maker which is in talks with Siemens, and other investors, the German bank owns the stake being bought by Mannesmann.

INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Cathay Pacific posts 21% decline

By Angus Foster in Hong Kong

CATHAY Pacific Airways, the Hong Kong international air carrier controlled by Swire Pacific, yesterday announced that interim profits to end-June had fallen 21.7 per cent to HK$1.1bn (US$141.8m).

The results were well received in Hong Kong, where a bigger decline had been feared, and shares in both Cathay and Swire Pacific closed firmly.

Cathay said passenger load factors fell 6 per cent to 70.6 per cent during the period because of a sharp drop in traffic during the Gulf crisis. Higher oil prices and price inflation in Hong Kong also affected profits.

Mr David Gledhill, Cathay's chairman, said there were signs of recovery and predicted an improvement in the second half. Load factors had recovered slightly, and cost-cutting measures, including a pay freeze, should ease pressure on the company's margins, he said.

Mr Gledhill said most of the airline's major markets had recovered well after the Gulf war. South-east Asian and North American routes had performed well, but the Japanese market remained depressed. New routes to London Heathrow and Johannesburg, introduced in May and July respectively, should contribute in the second half of the year, he added.

Cathay still hopes to start direct flights to Vietnam later this year, although previous plans have been delayed several times. The flights depend on agreement between the Hong Kong and Vietnamese governments, and are clouded by political questions such as the influx of Vietnamese refugees to Hong Kong.

Cathay's cargo and mail services continued to witness rapid growth, and revenues increased 18.3 per cent in the period. Air cargo volumes in Asia have risen sharply in recent years, reflecting the region's strong economic growth.

Turnover increased 5.1 per cent to HK$9.84bn. Net finance charges fell to HK$118m due to higher interest and investment income.

Cathay is paying an interim dividend of 10.5 cents, unchanged since 1989.

National Semi to take $149m charge

NATIONAL Semiconductor, one of Silicon Valley's leading microchip makers, said it would take a first-quarter charge of $149.3m to cover the costs of a worldwide restructuring of its manufacturing plants, writes Martin Dickson in New York. The company also warned that its operating results were likely to be below market expectations.

National, which has been struggling to return to sustained profitability after two years of disappointing results, said its action had been designed to allow the company to "reshape its manufacturing structure, consolidate under-utilised fabrication plant capacity, while upgrading its continuing operations and improving their utilisation". The plan would significantly lower its cost structure.

Wall Street analysts are expecting the company to report earnings per share of around 1 cent for the quarter to end-August, compared with net losses of $1.63 a share in the same period of last year.

In June, National reported fourth quarter net earnings of 3 cents a share, compared with 2 cents in the 1990 quarter, and losses of $151m for fiscal 1991 on revenues of $1.7bn.

● National Semiconductor said yesterday it was closing its Hong Kong manufacturing operation and laying off 160 workers, in an effort to cut costs and production capacity. The plant, established in 1969, was used to assemble computer boards.

National Semiconductor said the move did not affect its locally based south-east Asian marketing operation, which employees 180 others, or another 20 employees involved in design work.

Prague unit for Bayerishe Vereinsbank

By Katharine Campbell in Frankfurt

BAYERISCHE Vereinsbank, the large Bavarian bank, is setting up a subsidiary in Prague, making it one of the first German banks to establish a foothold in eastern Europe.

The 100 per cent-owned subsidiary will concentrate initially on trade finance and foreign exchange operations, with the intention of broadening into mortgage lending, one of its staple businesses in the west.

The Bavarians will open for business during the first quarter of 1992 with a staff of around 20 and a preliminary capital base of DM18m ($10m). BV says many clients along the German/Czechoslovakian border are building trade connections with Czechoslovakia.

The bank is also already involved in some project financings and is bidding on a number of privatisation schemes.

Although the big German banks are developing a network of representative offices across eastern Europe, most have as yet been unwilling to commit themselves further. Dresdner Bank, however, has taken a stake in a new operation in Hungary in partnership with Banque Nationale de Paris and a Hungarian bank.

Czechoslovakia has established a two-tier banking system whereby the functions of the Staatsbank, which previously had a virtual monopoly on all forms of banking business, is now restricted to monetary control and banking supervision.

Both Prague and Bratislava plan to open a stock exchange next year.

Toyota sees no sign of early recovery as profits tumble

By Stefan Wagstyl in Tokyo

TOYOTA MOTOR, Japan's biggest car-maker, yesterday reported a sharp decline in profits for the 12 months to June and warned against hopes of a recovery in the current year.

Amid difficult conditions for the world auto industry, pre-tax profits for Toyota's parent company fell 21.7 per cent to Y574.3bn ($4.19bn). Consolidated pre-tax profits were down 15.3 per cent at Y709.5bn, buoyed by good results from the US where the company had enjoyed increased sales of high-margin luxury cars under the Lexus marque.

Consolidated sales in the year rose 7.2 per cent to Y9,855bn, and for the parent company by 7.1 per cent to Y8,564bn. Turnover was held back by a marked slow-down in the Japanese market in the second half. In terms of units, sales of vehicles rose just 2.2 per cent from the previous year – with 4.528m sold against 4.429m. The downturn shows signs of continuing in 1991-92.

Toyota said profits had fallen because of significant increases in cost in areas including research and development, personnel, capital depreciation and managerial expenses. Exchange losses had further depressed the result. Analysts added that margins had suffered from intense competition sparked by the world-wide slowdown in auto sales.

For 1991-92, Toyota forecast a 5 per cent increase in unconsolidated sales to Y9,000bn and unchanged profits. The company said that while the Japanese economy was basically sound, there was "some concern we may see a business slowdown". The outlook for exports was uncertain because of "the continuing flat trend of the US economy and the unknown outcome of economic and political turmoil in the USSR and eastern Europe".

Toyota said investment in new plant and equipment would continue. The parent company had spent Y641bn on capital investment last year and intends to spend Y590bn in the current year.

Toyota's consolidated net income fell 2.2 per cent to Y431.4bn. The company is paying an unchanged total dividend of Y38 a share.

Mayne Nickless slips to A$105m

By Mark Westfield in Sydney

MAYNE NICKLESS, the Australian transport and security group, has ridden out the worst of the recession, posting a net profit for the year to June 30 of A$105.57m (US$82.4m), only 6.5 per cent down on the previous year.

Although group sales were up 11 per cent to A$2.3bn, tight margins squeezed operating profit before tax and abnormal items, down 10 per cent to A$149.2m from the A$166m of the previous year.

Mayne Nickless's transport businesses were hardest hit by the recession, with earnings falling 21.5 per cent to A$63.91m from A$81.44m in 1990, although revenues were 8 per cent higher at A$1.4bn.

Its acquisition of transport businesses in the Netherlands and Spain lifted European operations, with revenues rising to A$476.15m from A$194m. The hardest-hit sectors in the group were its Australian road express and freight operations and Parceline in the UK.

In line with its offshore push, Mayne Nickless recently agreed to build a large warehousing and distribution facility in the Netherlands for the Mars confectionery group.

Mayne Nickless's recent move into health care also reaped rewards for the group in the last year. Revenue from its Health Care Services arm doubled to A$137m.

Directors reduced the final dividend to 17.5 cents, fully franked, or tax free in the hands of shareholders, from 20 cents last year, making the full 1991 pay-out 35 cents.

● France Telecom has taken a 10 per cent stake in Kalori Communications, one of two contenders to establish a second telecommunications carrier in Australia, APDJ reports from Sydney.

Kalori was formed by Bell Atlantic and Ameritech Corp, of the US, and Hutchison Whampoa of Hong Kong.

Plumrose buys Venezuelan rival

PLUMROSE, the meat products division of the East Asiatic Company, the big Danish international trading and transport group, has bought out its biggest competitor in Venezuela, writes Hilary Barnes in Copenhagen.

The company, Venezolana Empacadora, was acquired from the Philip Morris group. It has an annual turnover of about Dkr250m ($37m) and 800 employees.

UPI files for Chapter 11 protection for second time

By Martin Dickson

UNITED Press International, the struggling US news agency, yesterday filed for Chapter 11 bankruptcy protection against its creditors for the second time in seven years – a move that might help the business in its efforts to find a new owner.

UPI, founded in 1907, has around 450 full-time and 2,500 part-time employees and serves more than 2,500 newspapers and broadcasting stations around the world.

Mr Pieter VanBennekom, the chief executive, said UPI's operations would continue normally as it made plans for a Chapter 11 reorganisation and dealt with the compensation claims of its creditors. UPI has around $65m in liabilities and about $22m in assets.

The news agency is owned by Infotechnology, a company that itself filed for Chapter 11 bankruptcy earlier this year. The two proceedings will now be consolidated, which should allow the reorganisation process to be streamlined.

UPI has been seeking a new owner for the past 10 months and decided not to accompany Infotechnology into Chapter 11 earlier this year because it thought such a move might impede a deal, then under discussion, with an international media consortium. However, UPI has since come round to the view that a reorganisation that freed it of past liabilities could make it a more attractive acquisition target.

The filing was also spurred by demands for payments by the holders of stock which was issued to creditors during the agency's previous spell in Chapter 11, during 1985 and 1986. The holders of this stock have been entitled to demand redemption since June, threatening UPI with demands for payment which could top $2m.

Mr VanBennekom said it was considering several reorganisation possibilities, ranging from independent operation to varying degrees of outside investment.

Portugal's BPI takes over Banco Fonsecas & Burnay

BANCO Português de Investimento (BPI), Portugal's leading private investment bank, has won control of Banco Fonsecas & Burnay (BFB), a medium-sized commercial bank which was privatised this week, writes Patrick Blum in Lisbon.

The sale involved a block of 16.4m shares representing 80 per cent of BFB's share capital. BPI paid just above Es36bn ($240m) for the bank at a base price of Es2,200 a share.

It will also underwrite the sale of the remaining 20 per cent of BFB which has been reserved for employees of BFB and for small Portuguese shareholders.

The acquisition will transform BPI into one of Portugal's leading financial groups.

The consolidated assets of the two banks, which will retain their separate identities, will be above Es800bn. The government will receive only Es8bn from the sale – the remainder being ploughed back into the bank.

SA insurer advances 14.4%

MUTUAL and Federal, the largest short-term insurer in South Africa, achieved a 14.4 per cent increase in after-tax profit for the year to end-June, writes Philip Gawith in Johannesburg. It also recorded an underwriting surplus when most of its competitors reported losses.

After-tax profits rose to R101m ($35.1m) from R88.2m in 1990. This included a R19m underwriting surplus, only 1.9 per cent of the earned premiums of R1.01bn. In 1990, the surplus was R11.5m on earned premiums of R748.3m. About one-third of the premium growth was the result of the acquisition of National Employers' General Insurance at the end of the previous financial year.

Mr Ken Saggers, managing director, said the underwriting performance was "satisfactory" when viewed against the current economic environment. He said competition in the commercial and industrial market remained fierce.

Earnings per share rose to 217 cents from 190 cents, and the dividend was lifted to 52 cents from 40 cents a share.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market

Latest prices at 6 10 pm on August 28

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	102¼	102¾		7.14
ALBERTA PROVINCE 9 3/8 95	600	105¼	105¾	+¼	7.83
AUSTRIA 8 1/2 00	400	100¼	101¼		8.36
BANK OF TOKYO 8 3/8 96	100	100½	101¼	+¼	8.18
BELGIUM 9 5/8 98	250	106¼	106¾	-¼	8.38
BFCE 7 3/4 97	150	99¾	100¼	+¼	7.79
BNP 8 5/8 94	300	103¼	103¾	+¼	7.34
BP CAPITAL 9 5/8 93	150	102¾	103¼	-¼	7.30
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINS INT 7 94 LFr	600	94	95		9.45
KREDIETCORP 7 93 LFr	1000	95¼	96¼		9.56
WORLD BANK 8 96 LFr	1000	95¼	97½		9.14
RABOBANK 5 3/4 93 Fl	150	94½	95¼		9.80
UNILEVER 9 00 Fl	500	101½	102¼		8.68
BCE INC 9 5/8 93 CS	300	99½	100¼	+¼	9.31
BELL CANADA 10 5/8 99 CS	150	100½	101¼	+¼	10.45
[illegible]					

DEUTSCHE MARK STRAIGHTS [illegible]

SWISS FRANC STRAIGHTS [illegible]

YEN STRAIGHTS [illegible]

FLOATING RATE NOTES [illegible]

CONVERTIBLE BONDS [illegible]

* No information available – previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg day=Change on day
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for Trading on 28.08.91 / Final Prices for Trading on 27.08.91

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.95	17.06	19.79
0100	15.69	17.00	19.82
0130	15.65	15.52	15.52
0200	15.66	17.00	19.83
0230	15.61	15.62	15.62
0300	15.61	15.51	15.51
0330	15.61	15.51	15.51
0400	15.61	15.51	15.51
0430	15.65	15.51	15.51
0500	15.58	15.52	15.52
0530	15.65	15.48	15.49
0600	15.69	15.51	15.51
0630	15.95	15.54	15.54
0700	15.89	20.57	23.47
0730	18.47	20.57	23.45
0800	19.03	17.18	19.37
0830	19.36	18.12	20.92
0900	22.76	18.28	21.09
0930	26.20	23.50	26.42
1000	26.29	29.05	32.05
1030	26.20	29.05	32.12
1100	22.95	21.41	24.28
1130	23.02	21.41	24.28
1200	25.09	21.41	24.28
1230	24.96	21.41	24.29
1300	22.70	21.41	24.30
1330	22.50	21.41	24.30
1400	23.17	21.41	24.31
1430	23.15	21.41	24.31
1500	22.41	21.41	24.31
1530	22.41	26.77	29.61
1600	22.43	28.58	31.64
1630	22.47	21.41	24.26
1700	25.63	21.41	24.27
1730	25.60	21.41	24.29
1800	25.56	21.41	24.30
1830	21.51	18.12	20.92
1900	19.25	17.34	20.12
1930	18.69	17.18	19.96
2000	16.11	17.18	19.97
2030	19.85	17.18	19.97
2100	21.51	17.18	19.97
2130	21.51	17.18	19.97
2200	19.85	20.59	23.47
2230	18.29	20.59	23.45
2300	17.85	17.18	19.96
2330	17.65	17.18	19.96
2400	17.85	17.18	19.97

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour rounded to two decimal places. To convert prices to pence per kilowatt hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Moody's lowers ratings on Salomon

By Patrick Harverson in New York

MOODY'S Investors Service, the New York ratings agency, yesterday lowered its ratings of Salomon Brothers' debt following the Treasury auction-rigging scandal that has engulfed the big securities house.

The agency's move may be the first of several downgrades.

Moody's downgraded its rating of senior debt issued by Salomon, the parent group of the securities firm, from A2 to A3, and its rating of the group's commercial paper from Prime-1 to Prime-2.

The downgrades, which affect $7bn of long-term securities, are likely to increase the amount of interest Salomon will have to pay when raising money on the capital markets.

The lowering of its commercial paper ratings could also force some US money market funds to stop investing in Salomon.

Tighter regulations introduced by the Securities and Exchange Commission (SEC) earlier this year have made the funds reluctant to invest in commercial paper that does not carry top ratings from the big agencies.

Salomon said yesterday the downgrades would not have a significant impact on the firm's overall liquidity, but admitted they might marginally raise its cost of borrowing.

Moody's lowered its ratings due to concern about "the possible legal, financial and business consequences arising from recent revelations of wrongdoing related to Salomon's US Treasury business."

It added that the greatest concern would be the nature of any criminal charges that might be brought against the firm and any judicial and regulatory sanctions that might be imposed.

Salomon has been under investigation by the SEC, the New York Federal Reserve, the New York Stock Exchange, the Treasury department and the anti-trust division of the Justice Department since earlier this month when it admitted forging customer orders and breaking Treasury rules in recent auctions of new government securities.

Among the disciplinary actions that could be taken against Salomon are the levying of multi-million dollar fines and a possible suspension or disbarment from participating in future Treasury auctions. The firm is facing a host of civil lawsuits from shareholders who allege they were defrauded by Salomon's illegal activities, and possible criminal prosecution by government agencies.

Salomon's earnings are likely to be affected by the scandal. It has already been temporarily barred by the government from bidding in Treasury auctions on behalf of customers, and several large public pension funds and the World Bank have suspended dealings with the firm.

The continued threat to Salomon's business has persuaded Moody's to keep the firm's debt ratings under review, and further downgrades are possible. However, the agency said the firm's credit standing was still supported by its professional financial management, adequate capital and healthy liquidity.

Moody's is the first big ratings agency to downgrade Salomon. Both Standard & Poor's and Duff & Phelps have also said they might downgrade the firm's debt.

Cash returns to Mexico's coffers

Damian Fraser on the gradual privatisation of the country's banks

MEXICO'S financial elite is at the point of regaining control of the country's banking system, nine years after having their banks seized by Mexico's government.

The bank privatisations are steeped in symbolism. In September 1982, the then president, Mr Jose Lopez Portillo, nationalised the banks just after his government had defaulted on Mexico's $60bn of foreign debt and confiscated all dollar-held deposits.

The move was intended to halt flight of capital to the US – but, in fact, it lead to billions leaving the country.

In a neat reversal, much of that money has now returned to Mexico to buy a chunk of the country's financial system.

From June to mid-August, Mexican financiers bought six state-owned banks for $1.35bn, three to four times their book value. On Monday, 800 investors, headed by Mr Roberto Hernandez of the brokerage Accival, paid $2.3bn, 2.62 times book value, for a controlling 50.7 per cent interest in Banamex, Mexico's largest bank.

By the middle of next year, all 18 formerly state-owned banks should be sold, for a total that is likely to exceed $10bn.

Mexico's businessmen, in stark contrast to 1981, are remarkably confident. The stock market, at the point of crashing in 1981, has almost doubled in value in the past 12 months and interest rates are at their lowest for a decade.

Inflation in the first half of this year slowed to 23.1 per cent, while the economy grew by 4. 8 per cent.

Unlike 1982, when bank owners were mainly rich industrialists, most of the bank purchasers have been brokerages eager to buy banks and form integrated financial groups. Many are convinced of the supposed synergies of putting a bank and brokerage under one roof. Others simply fear being left out.

The prospect of continued economic growth has also driven the buying. Mexico's banking system is still relatively underdeveloped: it has just one bank branch per 18,000 people, against one per 6,300 in Portugal. The mortgage market is untouched, while household and middle-size corporate lending is scant.

Mr Justin Manson, of CS First Boston, advisers to Mexico's Ministry of Finance in the bank privatisations, reckons the financial sector will grow at least twice as fast as Mexico's economy in the next five years. Costs are also likely to fall since the banking system is overmanned.

Add to this the remarkably rosy views bank investors seem to have of the prospects for Mexico's economy and the prices paid for the banks begin to make sense.

According to a document soliciting investment, Mr Roberto Hernandez's investor group reckons Mexico's inflation will fall to single digit by 1992, the peso will be fixed to the dollar, and economic growth will average 5.5 per cent a year from 1991 to 1995.

Such forecasts are, nevertheless, at the top end of the likely range. Even if the economy grows by over 5 per cent a year for the next five years, profit margins in the financial sector are likely to shrink as competition between the banks, spurred by the elimination of trade barriers with the US, becomes tougher.

This suggests that despite the opportunities in the coming years, Mexico's banks will be operating in an increasingly competitive environment.

In 1990, the average spread between lending and borrowing exceeded 6 percentage points, partly thanks to imbedded expectations of high inflation. But with the inflation rate falling and greater competition between the banks, the spreads have started to decline.

Mr Hernandez, in an interview last year, suggested Mexican spreads would fall to 1.5 per cent by 1993.

According to CS First Boston, in Spain, for example, the average interest rate spread is 4.9 per cent, which is 1.5 to 2.0 percentage points above the European average.

As spreads shrink, competition for formerly lucrative areas – such as money market operations, credit cards, and lending to large corporate customers – will intensify and some of the banks may well be forced to merge or fold in the next few years.

This will happen sooner or later, depending largely on how well Mexico's economy does in next few years and how fierce the competition is.

While the big banks such as Banamex – with assets of $26bn and earnings in the past 12 months of $400m – will probably survive and flourish, the smaller regional banks may even now be looking for partners.

UK bank launches deal in Ecu market

TWO deals were launched in the Ecu bond market yesterday, but both struggled under the pressure of aggressive pricing, writes Tracy Corrigan.

Abbey National, the UK bank, launched an Ecu150m five-year deal and Aerospatiale, the French aerospace company, brought an Ecu100m deal, both via Nomura International. Both have a maturity of five years and are priced to yield 9.30 per cent.

The Ecu market has started to recover after a period in the doldrums, but dealers said demand was still too thin for two tightly-priced deals to be absorbed. Underwriters of the Abbey deal felt it should have offered a yield about 10 to 15 basis points higher.

Mr Alex Brown, manager of capital markets at Abbey, described the borrower's foray into the Ecu sector as "a pre-emptive strike."

Abbey was able to take advantage of arbitrage opportunities to swap the proceeds into floating-rate Ecu at a rate below the London interbank offered rate. The debt will be kept in Ecu to match against Ecu assets.

Abbey's French franc deal, which had been postponed due to volatile market conditions, emerged yesterday to a reasonably positive reception. The deal will provide funds for Fico France, Abbey's French mortgage subsidiary. The deal was swapped into floating rate French francs at the Paris interbank offered rate (Pibor flat).

In the equity warrants market Mori Seiki, a Japanese machine tool manufacturer postponed two deals after its share price fell Y190 to Y2,120 following reports in Japan that its half-year results were likely to show a worsening performance. The deals, a $150m issue via Yamaichi International and a DM100m deal via Yamaichi Bank Deutschland, could be launched today, but are more likely to be postponed until the share price stabilises.

INTERNATIONAL BONDS

Treasuries firm on weak GNP data

By Patrick Harverson in New York and Sara Webb in London

US bond prices firmed across the board yesterday morning on the back of weaker-than-expected gross national product figures. Trading was light, with many market participants on holiday.

GOVERNMENT BONDS

By midday, the benchmark 30-year government bond was up $\frac{5}{8}$ at 100$\frac{5}{16}$, yielding 8.097 per cent. The two-year note was also firmer, up $\frac{1}{16}$ at 100, yielding 6.358 per cent.

Buying was triggered by the report that GNP fell 0.1 per cent in the second quarter, a substantial revision from the original estimate of a 0.4 per cent rise. Analysts had not expected a revision.

■ NEWS that the US economy shrank in the second quarter helped lift European government bond markets yesterday.

In Germany, the rise in government bond prices was also helped by better-than-expected German inflation figures.

The cost of living in western Germany was unchanged in August from July, giving a provisional year-on-year rise of 4.1 per cent. In July, the year-on-year increase was 4.4 per cent.

The new 10-year Unity bund – with a coupon of 8¾ per cent – rose to 102.05 yesterday afternoon, after Tuesday's close of 101.7.

The Liffe bund futures contract opened at 84.79 and traded to a high of 85.02 before falling to 84.97 in late afternoon.

■ UK government bonds inched up, although funding worries continued to hang over the market.

The 11¾ per cent gilt, due 2003/07, opened at 111$\frac{13}{32}$ and traded up to 111$\frac{21}{32}$. Traders expect the Bank of England to announce further issues of medium or long-dated gilts in the next two weeks.

■ THE rally in the US Treasury bond market helped to lift Japanese government bond prices in London trading yesterday, following a dull session in Tokyo.

The yield on the No 129 JGB opened and closed at 6.455 per cent, after moving in a range of 6.44 to 6.465 per cent in Tokyo. In London trading the yield moved to 6.4375 per cent as JGBs rallied.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		12.000	11/01	108.3108	+0.129	10.64	10.63	10.82
BELGIUM		9.000	06/01	98.1500	+0.300	9.28	9.37	9.49
CANADA *		9.750	12/01	100.3000	+0.260	9.70	9.72	9.93
DENMARK		9.000	11/00	98.2500	+0.225	9.28	9.29	9.45
FRANCE	BTAN	8.500	11/96	97.3152	+0.196	9.15	9.25	9.34
	OAT	9.500	01/01	103.1600	+0.400	8.97	9.09	9.24
GERMANY		8.750	08/01	102.0200	+0.310	8.44	8.51	8.57
ITALY		12.500	03/01	97.7600	+0.240	13.33	13.43	13.48
JAPAN	No 119	4.800	06/99	88.8155	-0.044	6.80	6.74	7.08
	No 129	6.400	03/00	99.8068	+0.110	6.43	6.40	6.65
NETHERLANDS		8.500	08/01	98.2400	+0.360	8.77	8.85	8.90
SPAIN		11.900	07/96	100.6500	+0.300	11.68	11.85	12.10
UK GILTS		10.000	11/96	100-00	+02/32	9.99	9.99	10.23
		10.000	02/01	100-06	+04/32	9.97	9.98	10.17
		9.000	10/08	93-25	+04/32	9.75	9.78	9.94
US TREASURY *		7.875	08/01	100-03	+05/32	7.86	7.81	8.18
		8.125	08/21	100-08	+10/32	8.10	8.06	8.39

London closing, *New York morning session. Prices: US, UK in 32nds, others in decimal. Yields: Local market standard. Technical Data/ATLAS Price Sources

Telebras plans $200m Eurobond issue

By Tracy Corrigan and Victoria Griffith

TELEBRAS, Brazil's state-owned telecommunications group, plans to launch a $200m offering of five-year Eurobonds next month – its first issue in the international markets.

Merrill Lynch has won the mandate to lead manage the issue, which is expected to carry a 10 per cent coupon.

Meanwhile, Banco Nacional do Desenvolvimento Economico e Social, Brazil's development Bank, has just completed a refinancing of some bank debt through a $55m issue of five-year Eurobonds with an average life of 3.5 years.

Merrill Lynch placed $30m of the bonds, which were priced to yield 11.66 per cent, while Bank of America took the remaining portion of the issue, in exchange for existing debt.

Last week, a new proposal by Brazil on the restructuring of its $50bn of commercial bank debt met an enthusiastic response from its bankers, boosting hopes an agreement will soon be reached.

Such an agreement, already largely discounted by the market, would further boost the perception of Brazil's credit and facilitate access to the international capital markets by other Brazilian borrowers.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Ford Motor Credit Co.(a)†	200	8	101.15	1994	1⅜/1.325	CSFB
Lechters Inc.§	60	(5-5¼)	83	2001	2½/1½	Goldman Sachs
ECUs						
Abbey Nat.Treasury Serv.(a)†	150	9¼	101⅜	1996	1⅞/1.775	Nomura Int.
Aerospatiale(a)†	100	9¼	101⅜	1996	1⅞/1.775	Nomura Int.
FRENCH FRANCS						
Abbey Nat.Treasury Serv.(a)†	1bn	9⅜	100.74	1994	1⅜	JP Morgan
SWEDISH KRONOR						
Volkswagen Int.Fin.NV(a)†	300	10½	100⅜	1996	1⅞/1¼	Deutsche Bk Cap.Mkts.

**Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed Aug 28 1991 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1991 to date	Tue Aug 27 Index No.	Fri Aug 23 Index No.	Thu Aug 22 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (183)	858.68	+0.3	9.79	5.63	12.60	23.39	855.94	858.27	857.04	754.95
2 Building Materials (24)	1108.02	+0.7	8.31	5.60	15.28	31.82	1100.13	1102.57	1094.88	963.24
3 Contracting, Construction (31)	1165.94	+0.2	9.43	6.69	14.00	32.68	1163.46	1164.45	1162.88	1215.78
4 Electricals (11)	2453.96	-0.5	9.75	5.43	13.11	63.95	2465.47	2481.79	2458.20	2054.25
5 Electronics (24)	1751.88	-0.2	8.58	5.19	15.03	48.40	1756.26	1757.31	1744.99	1600.44
6 Engineering-Aerospace (8)	410.47	+0.8	16.65	6.11	7.20	12.11	407.34	409.65	412.94	420.11
7 Engineering-General (45)	480.15	+0.1	11.10	5.35	11.05	13.13	479.80	478.81	478.74	412.78
8 Metals and Metal Forming (8)	451.96	+0.9	14.98	7.81	8.17	17.15	447.71	449.72	449.46	416.61
9 Motors (12)	358.99	+0.6	9.15	6.69	13.47	12.13	356.94	358.41	357.60	304.56
10 Other Industrial Materials (20)	1643.76	+0.3	8.52	4.89	13.79	36.42	1639.21	1646.64	1652.72	1336.96
21 CONSUMER GROUP (188)	1553.30	+0.3	7.42	3.52	16.61	26.76	1548.67	1561.66	1552.60	1176.34
22 Brewers and Distillers (22)	1889.63	+0.3	8.13	3.53	14.99	34.70	1884.04	1898.02	1878.88	1446.26
25 Food Manufacturing (19)	1214.98	+0.2	9.44	4.07	13.08	24.86	1212.91	1219.08	1219.78	997.02
26 Food Retailing (17)	2647.60	+0.6	8.11	3.15	16.12	44.38	2632.27	2673.16	2664.54	2379.68
27 Health and Household (22)	3719.07	+0.5	5.21	2.33	21.88	35.00	3701.21	3739.16	3717.62	2247.78
29 Hotels and Leisure (23)	1360.67	+0.6	8.75	5.07	13.77	35.83	1352.34	1360.51	1359.23	1245.19
30 Media (26)	1488.26	....	7.41	4.77	17.58	38.58	1488.80	1491.95	1474.95	0.00
31 Packaging, Paper & Printing (18)	766.92	-0.1	7.36	4.29	16.43	15.40	767.57	769.32	757.09	523.28
34 Stores (32)	1014.10	+0.1	7.54	3.67	17.31	17.12	1013.25	1023.84	1019.26	784.73
35 Textiles (9)	610.01	-0.6	8.23	5.08	15.09	14.09	613.49	614.71	611.32	423.86
40 OTHER GROUPS (109)	1277.98	+0.1	9.60	5.04	12.99	31.65	1276.91	1283.58	1276.12	1018.11
41 Business Services (12)	1399.93	-0.2	7.71	4.68	16.05	29.77	1402.16	1409.29	1399.07	0.00
42 Chemicals (21)	1477.49	+0.7	6.90	4.88	17.87	45.88	1467.56	1469.73	1456.26	1039.97
43 Conglomerates (10)	1506.32	+0.3	9.88	7.00	12.22	35.14	1501.89	1519.91	1520.20	1414,07
44 Transport (13)	2309.25	-0.2	7.78	4.64	15.94	50.50	2313.41	2317.60	2286.99	1963.93
45 Electricity (16)	1224.75	-0.1	14.30	5.31	8.94	24.04	1225.71	1230.15	1229.72	0.00
46 Telephone Networks(4)	1535.41	-0.5	9.62	3.96	13.61	28.34	1543.35	1555.59	1541.86	1114.97
47 Water(10)	2374.30	+0.4	17.23	6.48	6.42	118.37	2364.95	2379.66	2388.70	1959.88
48 Miscellaneous (23)	1943.77	+0.7	6.15	4.99	21.17	47.89	1929.50	1930.11	1918.40	1512.79
49 INDUSTRIAL GROUP (480)	1296.47	+0.2	8.58	4.42	14.43	28.00	1293.45	1301.56	1295.10	1030.05
51 Oil & Gas (20)	2461.69	-0.4	10.63	5.59	12.41	77.74	2470.55	2486.56	2446.57	2378.37
59 500 SHARE INDEX (500)	1396.19	+0.2	8.84	4.57	14.14	31.95	1393.97	1402.75	1393.82	1140.34
61 FINANCIAL GROUP (92)	832.97	+0.2	-	5.59	-	26.77	831.72	836.06	832.17	708.28
62 Banks (9)	983.92	+0.2	4.33	5.42	43.30	36.83	981.81	990.14	980.77	762.73
65 Insurance (Life) (7)	1596.69	+0.6	-	5.19	-	41.64	1587.25	1589.20	1592.72	1320.05
66 Insurance (Composite) (6)	648.59	-0.5	-	6.77	-	22.61	652.04	654.23	657.35	601.56
67 Insurance (Brokers) (9)	1169.21	+0.4	7.01	5.78	18.66	30.86	1164.94	1168.11	1165.03	849.91
68 Merchant Banks (7)	439.54	+0.2	-	4.77	-	12.16	438.55	436.18	435.74	378.14
69 Property (36)	932.79	+0.1	5.96	4.99	23.89	20.96	931.57	938.90	931.84	942.69
70 Other Financial (18)	261.56	+0.4	10.99	6.93	11.40	7.99	260.42	258.88	256.82	253.82
71 Investment Trusts (69)	1234.05	+0.2	-	3.49	-	22.35	1232.16	1235.41	1234.56	1045.57
99 ALL-SHARE INDEX (661)	1259.10	+0.2	-	4.67	-	30.23	1257.11	1264.73	1257.16	1035.28

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Aug 27	Aug 23	Aug 22	Aug 21	Aug 20	Year ago
FT-SE 100 SHARE INDEX‡	2624.2	+4.4	2630.6	2617.3	2619.8	2640.7	2623.0	2601.9	2554.5	2125.7

FIXED INTEREST

PRICE INDICES	Wed Aug 28	Day's change %	Tue Aug 27	Accrued Interest	xd adj. 1991 to date
British Government					
1 Up to 5 years (28)	121.79	+0.04	121.74	2.13	7.71
2 5-15 years (27)	132.52	+0.04	132.46	1.65	9.52
3 Over 15 years (9)	141.96	-0.01	141.98	3.13	7.40
4 Irredeemables (6)	155.73	+0.03	155.69	2.43	8.48
5 All stocks (70)	131.57	+0.04	131.52	1.98	8.81
Index-Linked					
6 Up to 5 years (1)	162.81	-0.05	162.88	0.99	2.72
7 Over 5 years (10)	145.94	+0.14	145.74	0.53	3.15
8 All stocks (11)	147.01	+0.13	146.82	0.55	3.14
9 Debs & Loans (58)	111.66	+0.03	111.63	2.14	7.16

AVERAGE GROSS REDEMPTION YIELDS		Wed Aug 28	Tue Aug 27	Year ago (approx.)
British Government				
1 Low	5 years	8.95	8.95	11.15
2 Coupons	15 years	9.67	9.67	11.15
3 (0%-7¾%)	20 years	9.67	9.67	11.15
4 Medium	5 years	10.02	10.03	12.04
5 Coupons	15 years	9.86	9.86	11.66
6 (8%-10¾%)	20 years	9.81	9.80	11.44
7 High	5 years	10.20	10.20	12.16
8 Coupons	15 years	9.97	9.96	11.93
9 (11%-)	20 years	9.87	9.87	11.76
10 Irredeemables	†	9.86	9.86	11.27
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	3.85	3.82	4.69
12 Inflation rate 5%	Over 5 yrs.	4.32	4.33	4.31
13 Inflation rate 10%	Up to 5 yrs.	2.87	2.84	3.53
14 Inflation rate 10%	Over 5 yrs.	4.13	4.14	4.12
15 Debs &	5 years	11.65	11.65	14.20
16 Loans	15 years	11.38	11.38	13.20
17	25 years	11.19	11.19	12.91

‡Opening index 2617.3; 9 am 2623.4; 10 am 2626.3; 11 am 2630.4; Noon 2627.5; 1 pm 2629.2; 2 pm 2628.7; 2.30 pm 2628.3; 3 pm 2626.1; 4.10 pm 2624.1; (a) 10.40am (b) 8.30am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, Ibex House, 42-47 Minories, London EC3N 1DY. Tel: 071-702 0991.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	25	12	46
Corporations, Dominion and Foreign Bonds	5	2	13
Industrials	314	197	992
Financial and Properties	117	82	544
Oils	18	21	49
Plantations	0	1	9
Mines	30	25	101
Others	41	47	58
Totals	550	387	1,812

LONDON RECENT ISSUES

EQUITIES

[illegible]	[illegible]

FIXED INTEREST STOCKS

[illegible]	[illegible]

RIGHTS OFFERS

[illegible]	[illegible]

TRADITIONAL OPTIONS

- First Dealings Aug. 19
- Last Dealings Sept. 6
- Last Declarations Nov. 21
- For settlement Dec. 2

For rate indications see end of London Share Service

Calls in Caskel, Crest Nicholson, Douglas (RM), Lep, Next, Pentland, Premier Cons., Richmond Oil & Gas and Tullow Oil. Put in Brent Walker. Put and call in Ferranti.

LONDON TRADED OPTIONS

[illegible]	[illegible]

FT-SE INDEX (*2624)

[illegible]	[illegible]

Wace spoils record with 34% fall

By John Thornhill

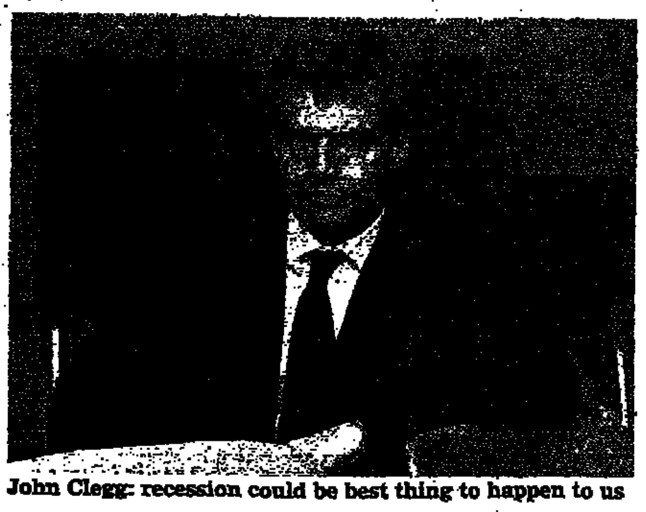
WACE GROUP, the pre-press and printing concern, yesterday unveiled the first serious blemish in its impressive growth record when it announced a 34 per cent fall in interim profits.

That reflected its exposure to the recession-hit advertising market and a sizeable increase in interest charges.

Taxable profits slid from £12.3m to £8.11m in the six months to June 30 in spite of an increase in turnover to £148.3m (£104.2m). Earnings per share fell heavily from 11.9p to 5.6p but the interim dividend is held at 2.25p.

In spite of the profits fall, Mr John Clegg, managing director, was surprisingly upbeat about prospects. He said Wace was in a good position to recover strongly, estimating that 200 of the 800 pre-press companies in the UK had gone out of business during the recession. This gave the group good opportunities to win market share.

"Strategically, I would say that in two years time we will look back on this recession and say it was probably the best thing that ever happened to us. We are an unusual industry. There are no significant major competitors."



John Clegg: recession could be best thing to happen to us

Operating profits fell to £11.5m (£12.1m) but were dragged down further by interest costs of £3.41m (£185,000 receivable). This largely resulted from the £9.9m spent on capital expenditure during the half year although this will fall to £5.2m in the second half.

Wace spent much of that money reorganising Parkway Group, the rival pre-press company it bought last year. Parkway contributed £1.9m to profits and £33m to sales.

An extraordinary cost of £852,000 resulted from the closure of some of its type-setting operations.

● COMMENT

The remarkable acquisition-driven expansion of Wace – which has seen it grow from almost nothing to a medium sized public group within the space of five years – has tempted some followers to believe that it is a financial disaster waiting to happen. Comparisons with Saatchi and Saatchi and WPP have inevitably been drawn. But there are several reasons to believe that such a meltdown will not happen. First, most of the dilutive effects of its earn-out based acquisitions have already been swallowed. Second, it has good asset backing to sustain the share price. Third, it has significantly strengthened management to cope with the demands of being a more mature business. Nevertheless, sentiment has clearly been running against the company. Analysts were disappointed by this set of figures and somewhat alarmed by the level of gearing, which rose during the six months from 52 per cent to 86 per cent. Pre-tax profits forecasts for this year have been trimmed to £23m giving a prospective multiple of 14, on a share price down 7p at 251p yesterday. That rating looks high enough, at least until the financial performance reflects the management's brave words.

CMG widens share base prior to its flotation

By Michael Skapinker

CMG, the employee-owned computer services group, has sold a 4.3 per cent stake to Midland Montagu Ventures for £3m as a prelude to a Stock Exchange listing within five years.

One of Europe's largest computer services companies, CMG said it had become too big to operate as a purely employee-owned group. Midland Montagu will buy shares from existing employee shareholders. No new shares will be created.

CMG, which offers consultancy, software development, business systems and facilities management, last year achieved pre-tax profits of £7m on sales of £96.2m. Mr Douglas Gorman, chairman, said he expected current year turnover to be about £100m.

The company, which has 1,600 employees, said it hoped to increase the size of its business in Germany before flotation. CMG currently has 10 per cent of its sales in Germany, with the remainder split more or less equally between the Netherlands and the UK.

This is the first time since its formation in 1964 that CMG has sold shares to anyone other than employees and their close relatives. Mr Gorman said he hoped flotation would not result in the company losing its independence. "What we hope to become is a very large European company operating under our own flag," he said.

Holmes Protect seeks approval for debt reduction agreement

By Jane Fuller

THE BOARD of Holmes Protection, the US-based security and alarm company listed in London, has appealed to shareholders to back its debt-restructuring plan and to oppose a management coup being attempted by a group owning nearly 27 per cent of the equity.

Mr Tom Mayer, chairman since last autumn, described a new agreement with lenders on how to repay $66m (£39.2m) of debt. He said it envisaged a more feasible timetable for the sale of assets.

The plan included:

● reducing the interest rate on the senior notes from 10.72 per cent to 8 per cent;

● extending the maturity date for the senior notes from January 1992 to September 1993 with principal payments totalling $25m before then;

● selling operations outside New York and applying the proceeds to repaying debt;

● converting $15m debt into new equity, giving the lenders a 33 per cent holding. At yesterday's closing price of 6¼p, the company's market value was £4.25m.

Mr Mayer said the most valuable asset – the New York operation – would be kept. The remaining business would still have $20m of long-term debt.

He conceded that the lenders, who had made unsecured loans, had gained as security the company's assets and subsidiaries. "They held the upper hand and they had initially wanted the company to liquidate all its assets."

Shareholders will be asked to support the plan at a special meeting in London on September 24, called by a group of dissident shareholders.

The Investor Group, led by Mr Eric Kohn, a former director, and involving Sir Ian MacGregor, has requested an enlargement of the board to include five new directors.

Mr Kohn said the current board had been negotiating from a position of weakness and still had to sell substantial assets. He described the lenders as "grabbing" security and said this was the "sting in the tail" of the new plan. The lenders were squeezing out as much cash as possible.

He said his group was supported by Scottish Amicable and AGF, two large insurance groups. Altogether he claimed the holders of at least 48 per cent of the equity were on his group's side. He quoted one institution as saying the management issue should be resolved before a settlement was reached with the lenders.

Bredero plunges into £1.3m loss

By Peggy Hollinger

BREDERO, the property company 49 per cent-owned by Slough Estates, plunged into the red in the first six months of 1991, reporting a taxable deficit of £1.3m against profits of £1m last time.

The weak economy and absence of any immediate recovery continued to have a significant effect on the property industry, the company said.

However Mr Allan Chisholm, managing director, said that "given the state of the market, losses of that size are neither unexpected nor seen as particularly bad".

Bredero develops small retail properties, a limited number of shopping centres, and is working on an office, retail and transport complex in Hammersmith, west London.

Turnover dropped by 40 per cent to £24.1m.

The trading portfolio, which derives income from the sale of properties, was worst hit and was responsible for most of the loss. Provisions of about £2m were made to reduce the carrying costs of the group's smaller retail and some residential properties.

However, the group's investment portfolio – developments retained as rental properties – almost doubled profits to £1.3m (£633,000). "We are not finding it as difficult to let our centres as others are," Mr Chisholm said.

Net borrowings rose to about £90m and off-balance sheet debt stood at £25m.

Bredero passed the interim dividend on its ordinary shares but will pay 6.12p per preference share for the first time.

Losses per share were 3.9p compared to earnings of 2.3p.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
ATA Selection §	int	nil	-	1	-	1
Braime (TF & JH)	int	2.35	Oct 7	1.75	-	7.25
Bredero Props	int	nil	-	1.2	-	2.4
Flextech §	fin	1.5†	-	1	1.5	1
McAlpine (A)	int	4.5†	Oct 18	4.5	-	10.3
Mersey Docks	int	2	Nov 1	1.7	-	5
Primadona	fin	2.5	Oct 8	2.5	4.5	4
TR Euro Growth	fin	2.5♥	Oct 30	-	-	-
Wace	int	2.25†	Oct 14	2.25	-	8.25

Dividends shown pence per share net except where otherwise stated. †On capital increased by rights and/or acquisition issues. §USM stock. ♥Includes special 1.5p.

Explaura holders take up 24.5%

Shareholders in Explaura Holdings took up 7.19m shares – 24.5 per cent – in the recent underwritten rights issue.

Nearly 22 per cent was taken by Inco Europe and it now holds 9 per cent of the capital.

Cookson sells Japanese unit for £18.6m

By Roland Rudd

COOKSON, the industrial materials group, yesterday announced the sale of its 80.4 per cent holding in Cookson Plibrico, Japan, to Asahi Glass, for Y4.26bn (£18.6m).

The group is also negotiating the sale of its Canadian and Mexican plastic businesses as part of its strategy to dispose of non-core businesses.

Mr Bob Malpas, chairman, said the sale of Plibrico's international businesses would mark the end of the reshaping of Cookson, designed to reduce debt and concentrate on its long-term business.

Net assets of Cookson's stake were about Y1.8bn at the end of last year.

Proceeds from the sale will help reduce group borrowings to about £200m.

Gearing was recently brought down to about 35 per cent following the £82.8m rights issue in April coupled with further sales. Last autumn gearing was above 100 per cent.

BOARD MEETINGS

TODAY

Interims- Barr & Wallace Arnold Trust, Bridon, Edmond, Friendly Hotels, Guardian Royal Exchange, Ladbroke, Monument Oil & Gas, Murray Intl Trust, Serco, Slough Estates, Williams Hldgs.

Final- Smith (WH)

FUTURE DATES

Interims-	
Allied Partnership	Sep 30
British-Borneo Petrol	Sep. 5
Burford	Sep. 5
Caparo Inds	Sep. 11
City & Commercial Inv	Sep. 5
FKI	Nov. 14
Ferrum	Sep. 10
Herring Son & Daw	Sep. 10
Hogg Group	Sep. 25
Johnston Press	Sep 25
Laird	Sep 6
Mallett	Aug. 30
Matthews (Bernard)	Sep. 12
Parambe	Sep 10
Pickwick	Sep 3
Ransomes	Sep. 16
Robinson Brothers	Sep. 10
Scottish Heritable Trust	Sep. 10
Sherwood Computer	Sep 9
TLS Range	Sep. 10
Tibbett & Britten	Sep. 16
Final-	
Europe Energy	Aug 30

Warning over annual report as losses increase at Richmond Oil

By Peggy Hollinger

RICHMOND OIL & Gas, the US natural resources group quoted in London, yesterday announced a sizeable increase in pre-tax losses and warned that its annual report would be qualified unless a severe liquidity problem was solved before the auditors signed off the accounts.

Mr Robert Fox, chairman, said that higher-than-expected costs on the development of oil reserves at Richmond Ranch in Texas had hit cash flow.

He said the group was just maintaining itself on a monthly basis and had curtailed its exploration programme.

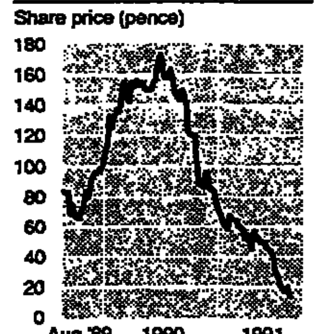
The shares, which have fallen from a peak of 173p in June last year, closed 1p down at 14p.

The group suffered pre-tax losses of £795,000 (£142,000) for the year to March 31 after provisions of £655,000 (£54,000 credit). The auditors had insisted on these provisions for expenditures made on projects which had yet to get a formal go ahead.

Turnover jumped from £607,000 to £7.54m, largely due to the Richmond Ranch buy and increased oil sales during the Gulf war. However, higher demand was offset by increased costs because of much stronger competition for rigs.

Richmond Oil & Gas

Share price (pence)



Source: Datastream

The group acquired Richmond Ranch in October for $33m cash and assumed its $51m debt. Since then it has pursued an active drilling programme, completing 34 wells at a cost of about $14m.

Mr Fox said the development of Richmond Ranch, which represents about 90 per cent of total group revenue, was the main priority and could involve joint ventures. "It is our most significant asset."

The group also stepped up development of its coalbed and methane interests in the San Juan basin of Colorado and New Mexico, in advance of selling a stake in the property.

A deal on San Juan is crucial to solving cash flow problems and would result in an unqualified report from auditors. "We had hoped to complete two or three months earlier," Mr Fox said. However, negotiations had been hampered by falling gas prices.

Mr Fox said the group was in advanced talks with three potential purchasers. "Ideally, we would like to sell a 75 per cent stake," he said. This could fetch between $15m and $22m (£8.9m to £13m).

The group's Panhandle operations in Texas were disappointing, Mr Fox said. Management mistakes had taken a heavy toll on returns. "In terms of the investment we made and the returns we are getting, it is looking miserable." Mr Fox said the group would review the investment within the next year.

Interest charges jumped from £5,000 to £234,000. Losses per share was also sharply higher at 1p (0.2p) and there is no dividend.

UK COMPANY NEWS

Mersey Docks up at £5.46m but tax cuts earnings

By Jane Fuller

THE MERSEY Docks and Harbour Company, in which the government has a holding of nearly 21 per cent, increased interim pre-tax profit by more than 12 per cent to £5.46m after expanding its services and attracting business from other ports.

However, a 23 per cent tax charge compared with no tax in the first half of last year, reduced earnings per share to 6.99p (8.1p). The interim dividend is increased from 1.7p to 2p.

The group also provided, above the line, for losing £700,000 deposited with the Bank of Credit and Commerce International (BCCI), which was shut down by the Bank of England on July 5.

The company said it invested its surplus funds in a range of banks and local authorities. The loss might have been worse were it not for the limit it placed on the amount put in any one institution.

Turnover rose 7 per cent to £29.2m (£27.4m). The comparative figure was adjusted downwards by almost £3m following placing of the stevedoring of general cargo activities in a joint venture.

Mr Bill Slater, chairman, said the new services attracted to the Port of Liverpool following comprehensive reorganisation had more than offset the adverse effects of the depressed economy.

The group's productivity had further improved with the workforce falling from about 1,600 in December to less than 1,500.

It had expanded its activities recently with the acquisition of the Coastal Container Line to strengthen the port's role in Irish Sea trade. Growth in the handling of imported coal was also expected.

Property profit fell from £250,000 to £219,000, derived from the sale of luxury flats at East Waterloo Dock. The pre-tax figure benefited from reduced interest payments of £203,000, compared with £342,000.

TR European net assets rise

NET ASSET value at TR European Growth Trust increased to 106.3p at end-June, compared with 100.26p when it was launched last August.

Net revenue for the period was £1.2m, for earnings of 3.14p. The board is recommending a final dividend of 1p, plus a special payment of 1.5p.

Revenues were said to have been buoyant, while exceptional income was generated by the sizeable cash balances prior to full investment, which has now been achieved.

Invergordon workers shun Whyte and Mackay bid

By Roland Rudd

INVERGORDON Distillers, the scotch whisky producer fighting a £286m takeover bid from Whyte and Mackay, yesterday said workers who stood to make six-figure sums from selling their shares had overwhelmingly rejected the bid.

For each £1 share employees bought at the time of the management buy-out three years ago, they were subsequently offered 30 free new shares when the company was floated in May 1990. Thus the price they paid averaged 3.3p per share compared to yesterday's closing price of 254p, making some of the employees paper millionaires.

By August 27, the close of the first deadline for offers, Whyte and Mackay, the drinks subsidiary of American Brands, the US tobacco group, had acceptances amounting to 20,000 shares, or 0.02 per cent of the capital.

Whyte and Mackay already had 465,000 shares (0.4 per cent), bringing its total to just 0.42 per cent. The 225p per share offer has been extended until September 17.

Mr Chris Greig, chief executive, said: "The appallingly small level of acceptances prove our case that our shareholders, many of whom are employees, have voted for independence.

"We are not looking for a white knight or posturing over the price. We just want to preserve our independence."

At the time of the buy-out directors took 8.5m shares and 8.8m went to employees. When the company was floated workers were offered more shares at 135p each.

Mr Edward Pickard, finance director, was given options on 675,000 shares at 4.2p when he joined the company last year. That stake will cost him £28,350 against a current value of £1.7m.

Mr Greig said the options had been offered to persuade him to join the company.

IN BRIEF

DARBY GROUP: Shareholders have applied for 158,000 shares, representing 12 per cent, in the placing and open offer of 1.33m shares..

ESTATES & GENERAL has sold its leasehold interest in the Polygon Industrial Estate, in Avonmouth, to Frogeye for nearly £1m. Present rent roll is £124,000 annually.

FOSTER (JOHN) has sold land adjacent to its Black Dyke Mills site in Bradford for £1m, which will be used to reduce borrowings.

RUTLAND TRUST has paid £1.1m for a further 5 per cent of Ellis & Buckle, loss adjuster. This takes its holding to 90 per cent..

YEARLING BONDS: The interest rate for this week's issue of local authority bonds is 10$\frac{11}{16}$ per cent, down $\frac{1}{16}$ of a percentage point from the last issue which was back in March, and compares with 14¾ per cent a year ago. The bonds are issued at par and are redeemable on September 2 1992.

Early move aims to avoid another pot-hole

Andrew Bolger on Brent Walker's decision to call in the Serious Fraud Office

BRENT Walker's long road to financial rescue took a dangerous twist yesterday with news that the Serious Fraud Office had started an investigation of the leisure group, which has debts exceeding £1.3bn.

The new directors emphasised that they had invited officers from the SFO and the Metropolitan Police into the group's headquarters at the Trocadero leisure and shopping centre, beside London's Piccadilly Circus.

However, the company would not specify the subject of the investigation, saying only that it did not affect current group operations and was not expected to interfere with the long-delayed refinancing. The proposed deal involves Brent Walker's 47 banks lending £70m of fresh capital, of which £20m has already been advanced.

The decision to call in the SFO was made at a directors' meeting on Tuesday after internal investigations last week uncovered what the company described as "significant evidence" of apparent fraud.

An SFO spokesman said it only became involved in an investigation when it had ascertained that there was a "reasonable case" to answer. Each case went to a vetting officer, a senior lawyer, and before it was accepted had to meet at least one of three criteria.

These were: that the law or facts were complex, that the money at risk was substantial – at least £2m, and there was considerable public interest.

Brent Walker emphasised that the events under investigation were largely historical, suggesting that they pre-date the ousting of founder, Mr George Walker, who stepped down as chief executive in May under pressure from the banks.

However, it is believed that the SFO investigation will centre on specific transactions and not widely-publicised allegations that Mr Walker had muddled his private money with that of the company – allegations which he has strenuously denied.

Mr Walker said last month that, far from him exploiting Brent Walker, the company had exploited him and his family. Over the last few years, his family trusts had guaranteed loans totalling £250m made to the company.

Bankers acknowledged then that the group's records were "in a bit of a mess," but that "the banking community does not take it (the mess) seriously." The priority was to get the refinancing sorted out.

A spokesman for the consortium of 47 bankers said yesterday that he believed their view of Brent Walker would not be changed by the SFO investigation and the formal agreement to refinance would be signed within weeks.

Until yesterday's announcement, the company had been hoping to publish its long-delayed annual report at the end of this week, and inform shareholders about the refinancing terms next week.

The package involves swapping £250m of the £970m owed to the banking consortium into equity and taking a large part of the interest payments on remaining debt as equity too. A further £350m is owed to a smaller group of bankers for money lent to buy William Hill, the betting shop chain.


Ashley Ashwood
George Walker: stepped down as chief executive

However, the 47 banks concerned could not be informed of the SFO inquiry in advance, and there must be a possibility that it will prove the final straw for those who only agreed to support the proposed packaging after a great deal of cajoling by the lead banker, Standard Chartered.

To date the banks have been persuaded that, rather than put the company into receivership, they would be better to provide support while cash-hungry business is disposed of and the company seeks to trade its way out of trouble with its cash-generative businesses.

Earlier this month the company said it aimed to raise £70m from its pubs division by selling Cameron's brewery in Hartlepool, leasing pubs and selling surplus land attached to pubs.

Brent Walker had also agreed to swap its half-share in the Trocadero and in the Blackpool Tower Shopping Centre, for a half-share in the 1.3-acre island site adjoining the Trocadero owned by Power Corporation, Dublin-based property group.

This would have had little overall effect on Brent's balance sheet, crystallising a loss on the properties' book value, but reducing overall debt.

The company could also face difficulties from some holders of the £101.9m convertible bonds issued last November, who include Mr Michael Smurfit, the Irish packaging millionaire, and Mr Tiny Rowland of Lonrho.

A spokesman for the bondholders said their attitude would depend on what the SFO discovered, but news of the inquiry "would certainly not help the refinancing."

So far, banks and bondholders have been kept in line by the thought that pushing Brent Walker into receivership would gain them nothing and would dash any hopes of a return on the money already committed.

The company's supporters suggested that the new management's decision to call in the SFO would be welcomed by the banks as the sign of a new broom being wielded. But it could yet prove the final straw for some financiers. The rocky road from ruin goes ever upward.

NEWS DIGEST

Braime surges to £283,000

A LARGE short-term contract for presswork and a surge in US orders for elevator monitoring equipment contributed to an increase in turnover from £2.45m to £3.51m at TF & JH Braime (Holdings) in the six months to June 30.

Taxable profits for this Leeds-based engineering company leapt from £70,000 to £283,000. The A non-voting shares rose 13p to 138p while the ordinary jumped 50p to 325p.

Earnings per share came out at 12.87p (2.92p) and the interim dividend is increased from 1.75p to 2.25p.

Cairn loss deepens to over £1m

The depressed US gas market again hit Cairn Energy and interim losses at the Edinburgh-based independent increased from £582,000 to £1.23m.

Due to low prices, US gas sales were cut back and oil revenue from the UK fields was the main factor in the overall sales rise from £3.38m to £6.07m.

Production costs and depletion charge took £6.15m (£2.66m) and a provision of £194,000 was made against the investment in Papua New Guinea. This left an operating loss of £1.16m (£135,000 profit).

At the period end bank debt had increased by £3.2m to £13.4m, including £2.2m due to currency movement on US borrowings. Losses per share rose to 5.04p (2.81p) and there is again no dividend payment.

Bensons completes snack acquisition

As part of its plan to create within the next year a division with annual sales of about £20m, Bensons Crisps has acquired AK Snacks of Newbury, Berkshire, for an undisclosed six-figure sum.

AK has sales of more than £6m and has been bought for shares.

First quarter sales at Pepe increase 8%

Shareholders in Pepe Group, the USM-quoted jeans designer and distributor, were told by Mr Arun Shah, chairman, that the board was optimistic the performance for the current year would reflect a marked improvement on last year.

He told the annual meeting that sales in the first quarter of the current year were up 8 per cent on last time, in line with expectations. The Spanish and US markets continued to grow, though the economic climate continued to be difficult in the UK, France and Australia.

In the year to March 31, pre-tax profits fell 54 per cent to £4.8m on turnover ahead 16 per cent at £158.8m. A recent convertible preference issue realised £9.4m and reduced gearing to about 45 per cent.

Primadona asset value picks up

Net asset value of Primadona, an investment trust, was 177p at July 31, an improvement of 4p over the value at its year-end – June 30 1991.

At end-December it had fallen to 153.38p from the 182p of six months earlier.

Net revenue over 1990-91 rose from £276,000 to £358,000, for earnings per share of 8p (6.1p). The proposed final dividend is an unchanged 2.5p for a total of 4.5p (4p).

ATA Selection stays in loss at midway

Losses continued at ATA Selection, the financial services and recruitment group, amounting to £96,000 pre-tax for the first half of 1991.

That compared with a profit of £186,000, which was cut to £41,000 by the end of 1990.

The interim dividend is passed, as was the 1990 final. The previous interim was 1p. Losses per share were 0.38p (earnings 0.96p).

Overall turnover fell from £3.24m to £2.68m. In financial services it rose 15 per cent but above normal charges for bad and doubtful debts reduced profits by 4.5 per cent. Small businesses suffered particularly badly and additional provisions were made against that sector of the portfolio.

ICL wins contracts worth over £11.6m

ICL has won two large personal computer contracts with a value of more than £11m.

In France, three regional banks in the Credit Agricole banking group placed an order for FFr46m (£4.6m) for more than 1,500 PCs. And in the UK, British Gas has reappointed ICL as its sole supplier of PCs to its UK group business for the second year running. Valued at £7m over the next 12 months, the contract was won against stiff competition.

River & Mercantile Smaller Companies

River & Mercantile Smaller Companies Trust reported net asset value of 105.53p per share at July 31 1991. Net revenue for the period to end-July amounted to £1.23m for earnings of 4.39p per share. A final dividend of 2.5p makes 3.75p; a special distribution of 0.37p is also proposed.

Flextech meets rights forecast with £6.2m

As forecast at the time of the £6.8m rights issue in June, pre-tax profits at Flextech, the USM-quoted oil services and communications group, rose from £4.95m to £6.2m in the year to March 31.

Also in line with the forecast, the dividend is lifted from 1p to 1.5p. Earnings per share were 13.09p (11.2p).

In oil services, almost all divisions of the Expro Group beat the previous year. A solid performance came from the Netherlands and the Far East, and from Exal Sampling services in the North Sea.

In communications, the group increased its stake in Starstream, which broadcasts The Children's Channel satellite television channel, from 25 per cent to 67 per cent.

Mr Stanislas Yassukovich, chairman, said Children's Channel would shortly extend its broadcasting hours, enabling it to generate increased advertising revenue particularly in the important early evening period. The trend of Starstream's business was continuing to improve.

The group is also a participating shareholder in C3W, which is bidding for the broadcasting licence currently held by HTV, and has charged to the accounts an exceptional £400,000 against the investment in the application.

BUSINESS LAW

Germany sets the pace on privatisation

By Ian Gaunt

EACH OF THE new central and eastern European democracies has announced plans for far-reaching privatisation of state-owned assets as part of moves towards a free market.

These proposals have reached various stages of implementation, but in no country has the pace of change been as rapid as that in the five new German Länder (states) of Brandenburg, Mecklenburg-Vorpommern, Sachsen, Sachsen-Anhalt and Thuringen.

Since the re-unification of Germany in October last year the Treuhandanstalt, the state-owned trustee company in which the assets of the former German Democratic Republic have been vested, has relentlessly pursued its task of privatising the approximately 8,000 enterprises under its control.

So far, excluding restaurants and small retail outlets, some 2,000 companies have been sold to private enterprise and the Treuhandanstalt is eager to divest itself of the remainder as fast as possible.

In some cases companies or assets have been put out to auction but most have been sold by private negotiation, mostly to purchasers from the "old" federal republic.

It is not surprising that most interest has been shown by German investors – so far no other country has supplied more than 20 purchasers – but there is an increasing degree of interest now being shown by would-be investors from outside Germany.

Investment in this region is seen by many as a bridgehead into the other markets of central and eastern Europe, capitalising on the ties established by east German entities with partners in the former Comecon countries to the south and east.

There is also a well-educated labour force and managerial class whose first foreign language is Russian, to some extent the lingua franca of central and eastern Europe.

To encourage investment in the new Länder the federal government has introduced investment incentives, the most important of which are allowances for certain investments, investment grants, accelerated depreciation allowances for investment in most types of capital goods, and term loans with reduced interest rates and guarantees given by institutions including Kreditanstalt fur Wiederaufbau.

Businesses based in the new Länder also benefit from exemption from commercial tax and wealth tax. One adviser has estimated that the net effect of such grants and allowances could be to reduce the effective cost of an investment by up to 50 per cent.

The companies which the Treuhand is trying to sell are not without their problems. The restructuring of the economy of the eastern Länder has exposed serious problems of overmanning.

Balance sheets, which have had to be produced for the Treuhand companies for the first time, reveal that many of the enterprises' assets have been greatly overvalued according to the different accounting systems previously employed under the centrally planned "command" system.

Many of the enterprises now restructured as private companies have suffered a serious fall in sales since mid-1990. This has been the result of the difficulties experienced by former customers in Comecon countries in making payment in convertible currency as opposed to transferable roubles, and currency reforms which have greatly increased the cost of east German products in international markets.

Also, until now, the preference of consumers in the new Länder for western products to which they were previously denied access, has had a serious impact on sales of consumer goods by east German companies themselves.

The lapse of employment guarantees for much of the workforce of Treuhandanstalt companies on June 30 led to many redundancies among industrial workers; it is clear that widespread cuts will also be needed among agricultural workers. In some towns in the new Länder unemployment may soon exceed 50 per cent of the workforce.

Productive investment has thus become all the more urgent. Such investment may not merely take the form of acquisition of an existing corporate enterprise. In some cases a new venture may offer more attractive potential. In taking over an existing industrial enterprise in the new Länder, investors will have to take at least some risk on the so-called "old burdens" inherited from the socialist system, in particular, the risk of clearing up pollution and potential claims for restitution.

Although the Treuhand is, to some extent, prepared to underwrite pollution liabilities, investors will be required to take up to 20 per cent of the risk. Although such risks can be clarified by appropriate due diligence enquiries, the lack of environmental controls under the old regime means that it may not be possible to eliminate altogether future liabilities for clearing up pollution or costs associated with installing new equipment to comply with strict federal German and EC environmental regulations.

Another widespread problem is the issue of title to land. In principle the Unification Treaty permitted claims for restitution to be filed by former owners of land in the eastern Länder up to October 13 1990. Claims filed before that date, if accepted by the new administrative tribunals set up to determine them, entitled the claimant to restitution in kind.

This is obviously unsatisfactory from the point of view of an investor. Under provisions contained in the new investment law, if sufficient jobs can be guaranteed by the investment, the purchaser may be able to obtain protection from claims of former owners by the issue of an investment certificate, whereby claims for restitution are by law translated into claims for compensation underwritten by the state.

Nevertheless due diligence enquiries as to title are still necessary and can be extremely difficult, particularly as many of the old pre-socialist records have been destroyed or are difficult to access.

Although the Treuhand does not favour the idea of its continuing to hold an equity share in the enterprise which it is trying to sell, there have been cases where only a majority stake in an enterprise has been privatised leaving the Treuhand as a minority shareholder. This is usually done on the understanding that the remainder of the equity will be privatised in the near future.

In principle the Treuhand can itself take steps to modernise or restructure a business for sale but would prefer to leave this to the purchaser. The sale should be based on the full value of the enterprise; the balance sheet should be drawn up according to west German Bilanzgesetz (balance sheet) principles.

The Treuhand is also keen to maintain employment so far as practicable and investors may be expected to give guarantees on employment levels consistent with the business plan they submitted to the Treuhand.

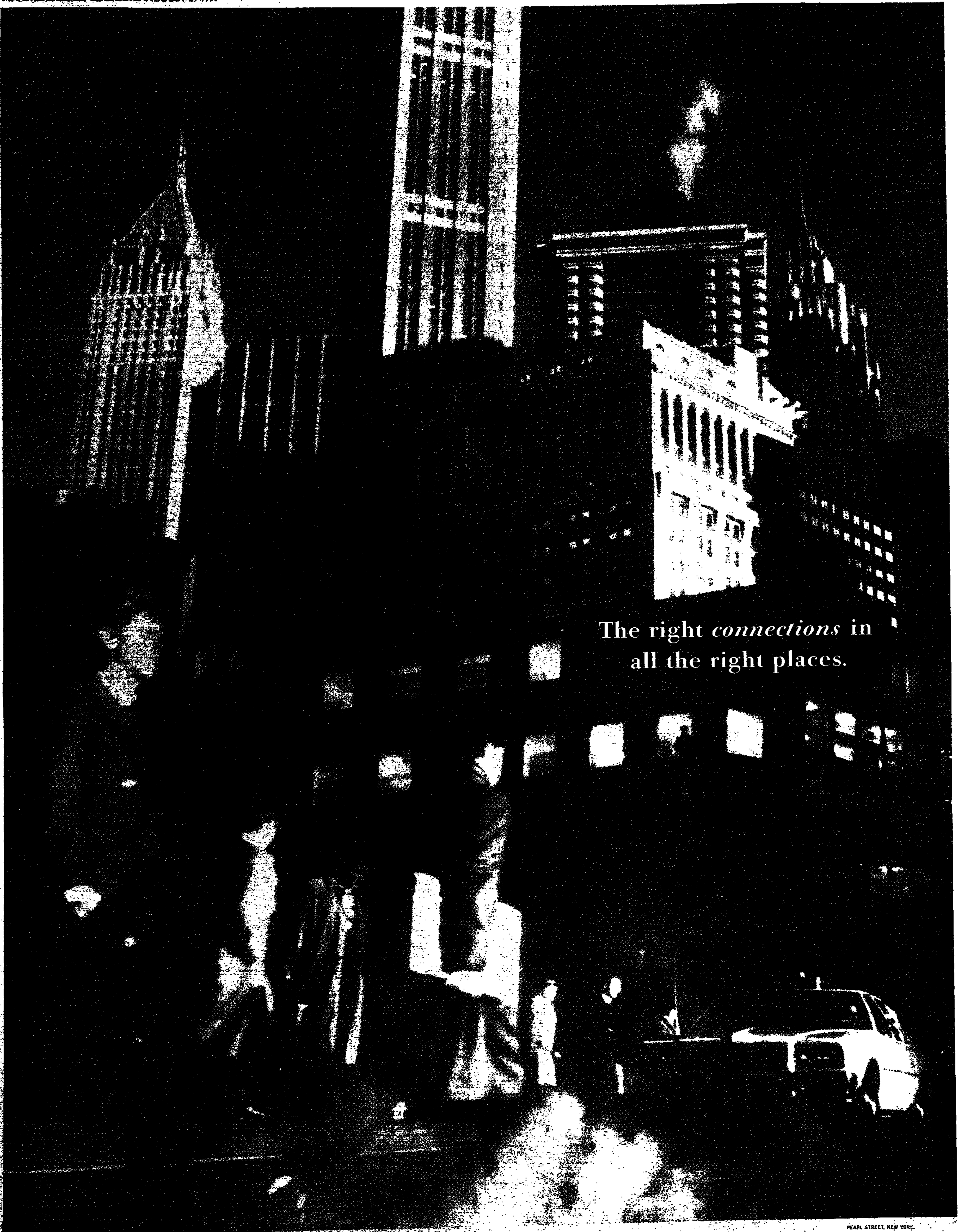
Whether an investor decides to take over an existing enterprise or form a new one, obtaining planning consents can also be wearisome – although progress can be expedited by impressing on the leaders of the local commune the likely creation of jobs.

The effect of the wholesale adoption of the legal and administrative system of the federal republic is certainly a step forward compared with the situation prevailing in other former socialist countries in central and eastern Europe. There is, however, still a serious dearth of judges, lawyers and administrators in the new Länder able to cope with the immediate need to adapt to the new system.

Federal German and EC competition rules now apply. Before the sale of a company the Treuhand is obliged to examine whether the acquisition by the proposed purchaser might violate antitrust rules. However, this examination will not relieve the purchaser of making its own appraisal of the anti-competitive effect of the acquisition for the Treuhand's agreement to the sale does not signify approval by the German Cartel office, the Bundeskartellamt, or the EC Commission.

Although foreign investors may lag behind their German counterparts in taking interest in the new Länder and although formidable problems remain, there is no doubt that the eastern part of Germany is one of the most interesting areas for new investment in Europe and for those who dare, given proper advice, the rewards may be substantial.

The author is a partner of international commercial solicitors Sinclair Roche & Temperley.



PEARL STREET, NEW YORK.

COMMODITIES AND AGRICULTURE

Yeltsin order sets the gold market guessing

By Kenneth Gooding, Mining Correspondent

GOLD MARKET traders and analysts last night were desperately trying to get more information about the order from Mr Boris Yeltsin, the Russian leader, that all foreign exchange, precious metals and stones operations be made only with the approval of his republic.

There was no consensus about how the surprise move should be interpreted. One London trader suggested that Mr Yeltsin was under great pressure to bring order to Soviet finances and the order was an attempt to show that he had payments and reserves under control.

He pointed out, however, that the Soviet Union's economic problems were greater than ever and added, "I'm not sure that this eases the pressure for the Soviets to sell or to swap gold in the west."

Mr Tom Griffo of Cargill Investor Services in New York supported this view. He suggested that the Russian leader wanted to establish an "accountability trail" of where foreign exchange holdings wound up when the Soviet Union sold gold. "You can't say they're going to sell more or less from the statement. There's not a whole lot to go on."

However, Mr Andy Smith, analyst at the Union Bank of Switzerland, while stressing that his views were entirely speculative, said that the move was potentially positive for the gold price. Mr Yeltsin now had the potential to shift gold to the west to show that Russia intended to keep to loan agreements or to show that the republic would stick to any undertakings given to the International Monetary Fund.

This would provide an alternative to outright gold sales or the use of gold swaps (where the metal is sold but with a promise it would be bought back at an agreed future date).

Previously the Bank of Foreign and Economic Affairs, which was responsible for all the Soviet Union's gold sales, had held back from shipping large amounts of gold to the west as collateral for long-term loans because of perceived opposition from individual republics.

But, with Russian appointees heading the BFEA and the state bank, Gosbank, Mr Yeltsin had control over Soviet gold supplies and this opened up a new strategic opportunity, said Mr Smith.

Gosbank officials were due to meet the IMF in London next week, the Union Bank of Switzerland's analyst pointed out. He added: "What better way to show goodwill towards the IMF than through a gold deposit".

Ms Rebecca Tabatabai, analyst with Credit Suisse in Zurich, also suggested the move might be positive for the market. "It should keep gold sales centralised and prevent selling by the individual republics," she said.

Some New York analysts suggested, however, that the break up of the Soviet Union would result in more gold being sold to the west. "It is certain that the breakaway republics have some gold but we don't know how much," said Mr Vahid Fathi of Prescott Ball and Turben. "But whatever they have would be up for sale as they try to get on their feet."

While the debate raged, the gold price remained virtually unchanged and it closed last night on the London bullion market down 15 cents at US$354.45 a troy ounce.

Twilight time for Malaysian plantations

Lim Siong Hoon examines the decline of the country's leading agricultural sector

DURING THE lucrative years, the bonus was four times the salary. Such were the rewards of rubber and palm oil that encouraged planters like Mr Alan B to put in three decades of work.

"You stay in business for the boom years," he says. But those years are becoming increasingly infrequent.

Planters testify to how the peaks in the markets' cycles are becoming shorter-lived and the troughs ever longer. "It used to be two years, sometimes three," says Mr B. Now, it is seven or eight, with a brief good year in between.

Malaysia's plantation industry is entering its twilight years.

Even the country's largest plantation group, and one of its oldest and most conservative, has joined the rush into real estate. Earlier this year the Guthrie group transferred 5,200 out of its 286,000 acres to a property development company it had just created.

Dunlop Estates, too, is hardly recognisable as a plantation house. Pleading poor returns, it sold all its 68,890 acres to an oxygen gas supplier last year.

Like others, Guthrie's decision to turn its crop land into housing suburbs is irreversible, and reflects how Malaysia's multi-crop strategy has stalled at cocoa.

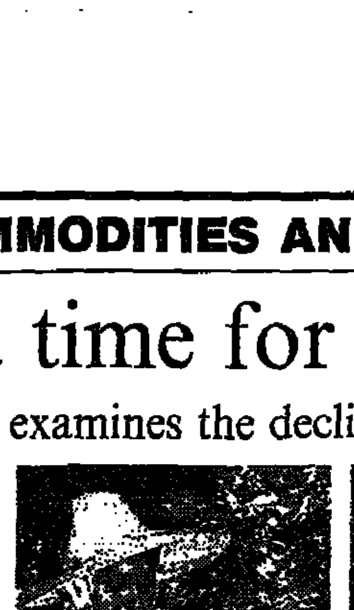
In an era of steel and petrochemicals, and 10 per cent growth in real incomes, the rewards of property development is big for century-old plantation houses like Guthrie and Golden Hope (formerly Harrisons Malaysian).

"Take any town. All the land around it is owned by them," says Mr B. "Its agricultural value is in the books for M$4,000 or M$5,000 an acre. You can flog it for M$30,000 or M$50,000, but M$80,000 if you develop it yourself."

Last November, Sime Darby sold 1,200 acres of oil palm estates near Kuala Lumpur for M$150,000 an acre, nearly 90 per cent of which was pure profit. This sale alone netted M$132.5m, three times the company's plantation earnings for the entire 1989-90 crop year.

With the markets flat most of the time, last year's margin at every plantation shrank by between half and three-quarters. They remain profitable but multi-cropping has suddenly become a financial burden since losses in one crop have to be set against the profits of another.

"I don't know of anyone making money from cocoa," says Mr B. "Everyone thought we could do the same for it as we did with palm oil."



Cocoa growing has not provided the hoped-for insurance against low rubber prices

Oil palm started in the early 1970s as the planter's insurance against weak rubber prices. New to the international vegetable oil market, it was well received. And, like rubber, it suited plantation-style cultivation with year-round harvesting.

Cocoa was different. The Africans were already big producers, and the crop seemed attractive only because the free-market prices were distorted by the International Cocoa Organisation's buffer stock buying, which has since been suspended.

"From hind-sight," says Mr B, "I think cocoa is better off a smallholder, not an estate, crop. You can abuse the oil palm and rubber trees and still pull them back later. Not in cocoa."

Underlying its beleaguered state is that Malaysian plantations are no longer the main players in tropical commodities. Southern Thailand and north Sumatra have come alive with rubber. Says Mr B: "If the Indonesians are as efficient statistically as in their cultivation, they are probably the biggest producers of rubber."

Help in improving Indonesian agriculture was provided by an unexpected influx of expatriate planters, skilled in estate management, who had left Malaysia amid a binge of nationalism in the early 1980s.

Mr B defends the government. It kept its word, he says, in keeping the planters until their retirement. But the management shake-up following the acquisitions of what were previously European-owned plantations resulted in, by his estimate, 40 to 50 resignations.

Troubled by competition, labour shortages and competing demands for land at home, Malaysian planters talks today of mechanisation to raise output and to squeeze more out of the trees. "But, we are not growing wheat," says Mr B. On the hilly terrain, where the trees thrive best, mechanisation is difficult.

Improved planting by smallholders, who produce a third of the palm oil and two-thirds of the rubber, may have helped to sustain Malaysian output. Given their poorer yields, however, they are more susceptible to any fall in the market.

To halt agriculture's decline, the government in June announced land reforms to overhaul the smallholding sector. Plantations were invited to participate, with investments and with management expertise. Danish investors were allowed to regain equity control of United Plantations – the first to have reverted to foreign control after 10 years.

Oil palm, rubber and cocoa occupy about 60 per cent, 30 per cent and 10 per cent respectively of the 3.4m acres in private estates, which in turn accounts for 35 per cent of total cultivated land.

During the last two decades, plantations cut their rubber acreage from 1.7m to 890,000 acres. That loss was made up by oil palm and cocoa but, today, the promise of "insurance" coverage is in danger of evaporating.

So lucrative an alternative is the property sector that plantations' "main source of money will be the development of land in the next 10 years", says Mr B.

He hopes to retire before then to England where "I intend to grow vegetables", he says. "I was last in, and I'm last out."

Alan B is the pseudonym of a planter who prefers to remain anonymous.

Rubber price fall sparks support purchases

THE INTERNATIONAL Natural Rubber Organisation announced yesterday that it had made its first price support purchase for 17 months, reports Reuters from Kuala Lumpur. The group said it bought an undisclosed amount of RSS No. 1 Indonesian rubber for September and October shipment in the Singapore market.

An official said Inro bought for September at 80.25 US cents a kilogram and for October at 81.00 cents, fob from the Indonesian ports of Belawan, Surabaya and Jakarta. Singapore dealers estimated the amount at a few hundred tonnes.

Mr Aldo Hofmeister, the organisation's buffer stock manager said last week that he might resume buying as soon as prices had fallen below the group's "may-buy" level of 176 Malaysian/Singapore cents a kilogram.

The five-day average, which is taken from Singapore, Kuala Lumpur, London and New York markets, was 175.58 cents a kilogram on Tuesday.

Under Inro rules, Mr Hofmeister may buy rubber below 176 cents and must buy below 166 cents. Inro last bought 34,500 tonnes between January and March last year.

The buffer stock manager has said the surplus of RSS No. 1 and TSR 20 Indonesian rubber grades was depressing prices.

News of Inro's intervention lifted prices in Singapore but had little influence in Kuala Lumpur. "Prices may stay weak unless Inro buys in the local market," a broker said.

Comex to launch 5-day options on September 3

By Barbara Durr in Chicago

THE NEW York Commodity Exchange (Comex), the world's largest gold market, will begin trading its new five-day options on gold on 3 September.

The five-day contract is the shortest-term option listed on any US exchange and it is aimed at increasing the appeal of gold options to individual investors.

According to Mr Martin Greenberg, Comex chairman, the short time-frame of the options and the fact that they are traded at a fraction of the cost of conventional gold options should have appeal for individual investors. It will provide them the chance to trade with limited risk but still have a shot at significant profits.

Commercial participants in the market are also expected to use the contract to hedge short term exposure to gold. The novel feature of the new gold options is that they are cash-settled at expiry based on the price of the underlying futures. They will be non-exercisable by purchasers.

Norwegian plant to cut nickel output

By Robert Gibbens in Montreal

THE FALCONBRIDGE metals company is cutting back production at its nickel refinery in Norway because of low prices and disruption in supply of feedstock from the Soviet Union.

The company, owned jointly by Noranda and Trelleborg of Sweden, will trim the operating rate to 75 per cent of capacity for several months from the present 90 per cent, until market conditions become clearer.

Nikkelverk produced almost 59,000 tonnes of refined nickel in 1990 or 8.5 per cent of western world consumption. The refinery's feedstock comes from Canada, Botswana and the Soviet Union.

● At the London Metal Exchange yesterday the cash nickel price fell $57.50 to a fresh 1991 low of $7,835 a tonne.

Albania agrees exploration contracts

By Kerin Hope, recently in Tirana

ALBANIA HAS signed contracts for offshore oil and natural gas exploration with four western oil companies and will complete two more agreements early next month, according to a senior Industry ministry official.

Deminex of Germany and OMV of Austria were granted joint prospecting and production rights in the Adriatic off the north Albanian coast, while two US companies, Chevron Corporation and Occidental Petroleum, are to explore in two separate areas farther south.

Mr Bejo Sejdini, oil director at the ministry, said final details of similar agreements with Agip of Italy and Hamilton Oil Corporation of the US were being worked out. "We set up five offshore zones for exploration and we expect that seismic testing will start next month in several of those areas," he said.

The contracts, all for 25 years, foresee a three- to five-year research and exploration period during which Albanian staff will undergo on-site training, he said.

"Once the exploration costs are recovered through production, the equipment used will become the property of the Albanian state. The state will also take the larger proportion of profits from production."

Albania, an oil producer since the mid-1920s, has proven onshore reserves of 200m tonnes, mainly in the south. But only a small proportion is recoverable with present drilling equipment, much of it dating from the 1950s.

Production has declined sharply in recent years from a peak of about 2.5m tonnes in 1974. Last year only about 1m tonnes was produced, while this year's output is forecast at only 900,000 tonnes, well below the country's annual domestic requirement of 1.1m tonnes.

"We will probably have to import some 300,000 tonnes this year, as demand is rising, especially with the introduction of private cars in Albania," Mr Sejdini said. In the past, Albania exported crude to Greece and Italy.

Current production is mostly of heavy crude with a high sulphur content. The country's total refining capacity is about 2.5m tonnes annually.

Mr Sejdini said legislation was being prepared to permit joint ventures with foreign oil companies for onshore production.

Albania also produces about 500,000 cubic metres annually of natural gas, from five coastal fields in the centre and south of the country. It is used to fuel local industries.

● Statoil, the Norwegian state oil company, said that from yesterday its Mongstad refinery would be closed for a planned, six-week, NKr150m (£13m) inspection and maintenance programme, writes Karen Fossli in Oslo.

Mongstad, which came on stream August 1989, at present produces about 6.5m tonnes of refined products annually, 80 per cent of which is fuel.

"We will fulfil term customers' contracts by supplying products which have been stored in underground caverns at the refinery and by some purchases in the market," Ms Berit R. Oeyen, a Statoil spokeswoman said. Spot market sales will decline in the period, however, she added.

About 70 per cent of Mongstad's refining capacity is based on term contracts. The Norwegian North Sea crude which would normally go to the refinery will be sold in the world market. Some 1,000 extra workers, including the regular Mongstad staff of 700, will be involved in the operation.

Jamaican sugar crop higher, but below target

By Canute James in Kingston

JAMAICA'S 1991 sugar harvest yielded 233,371 tonnes, 14,312 tonnes more than last year's production, but short of the industry's target of 240,000 tonnes.

Mr Frank Downie, executive chairman of the Sugar Industry Authority, said that the island had met all its export commitments of 126,000 tonnes to the European Community and 22,000 tonnes to the US.

He said Jamaica had shipped an additional 4,000 tonnes this year to the EC after a shortfall by Guyana against its quota was reallocated to other suppliers.

Jamaica will be importing 32,000 tonnes of refined sugar from the US later this year to meet the needs of the local food processing industry, Mr Downie said.

WORLD COMMODITIES PRICES

MARKET REPORT

Zinc remained under pressure throughout the day on the LME. Speculative selling took three-month metal to a new contract low of $1,028 a tonne on the morning pre-market before trade buying and short-covering provided support and held the market above $1,030 for the rest of the day. Traders said the market was in uncharted territory and they could not pinpoint areas of support. They suggested that $1,000 was probably in a lot of people's minds. The physical sector has been sluggish but there have been signs of a pick-up in US demand with premiums of up to $10 being paid for zinc in Baltimore recently. Copper maintained this week's firmer trend although profit-taking trimmed gains at the close and the firmer pound against the dollar restricted the rise in the sterling copper price. Speculative buying and short-covering against a background of tightness of LME September delivery metal and optimism in the US over the prospects for a fourth quarter economic recovery aided the firmer trend, traders said. The possibility of a strike at Minero Peru's facilities, due yesterday but now postponed until next Tuesday, had little impact as strike threats in Peru have often lacked full miner support.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$16.80-6.85z	-.075
Brent Blend (dated)	$19.95-0.05	-.025
Brent Blend (Oct)	$20.00-0.10	-.075
W.T.I. (1 pm est)	$21.80-1.85z	-.125
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$242-244	
Gas Oil	$192-194	+1
Heavy Fuel Oil	$71-73	-1
Naphtha	$213-215	-2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$354.45	-0.15
Silver (per troy oz)♣	394.5c	-1.0
Platinum (per troy oz)	$338.75	-6.0
Palladium (per troy oz)	$81.65	+0.75
Copper (US Producer)	108c	+2
Lead (US Producer)	35c	
Tin (Kuala Lumpur market)	15.16r	-0.01
Tin (New York)	259.0c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	105.43p	•
Sheep (dead weight)†	118.08p	•
Pigs (live weight)†	65.37p	•
London daily sugar (raw)	$234.0q	-10
London daily sugar (white)	$287.5	-1.5
Tate and Lyle export price	£248.5	-8.5
Barley (English feed)	£109.75	
Maize (US No. 3 yellow)	£180.0	
Wheat (US Dark Northern)	£101.5	
Rubber (Oct)♥	53.00p	-0.25
Rubber (Nov)♥	53.50p	-0.25
Rubber (KL RSS No 1 Sep)	227.5r	-2
Coconut oil (Philippines)§	$440.0y	-15
Palm Oil (Malaysian)§	$317.0t	-8
Copra (Philippines)§	$290.0	
Soyabeans (US)	£157.00	-2
Cotton "A" index	71.90c	
Wooltops (64s Super)	365p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Sep/Oct t-Aug/Dec u-Sep x-Jul/Aug y-Aug/Sep z-Oct |-Oct/Nov. †Meat Commission average fatstock prices. • change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Oct	203.00	202.60	205.00 202.60
Dec	188.60	190.00	185.00
Mar	186.80	185.00	187.00 185.00
May	186.80	186.40	187.40
Oct	200.00	194.40	190.00 184.20
White	**Close**	**Previous**	**High/Low**
Oct	285.0	287.3	287.0 284.5
Dec	278.1	278.3	278.7 278.2
Mar	276.8	276.8	277.5 275.5
May	275.8	275.6	276.3 275.0
Aug	274.6	275.6	275.3 273.7
Oct	255.6	257.6	256.5 255.0

Turnover: Raw 321 (465) lots of 50 tonnes. White 1643 (1062). Paris- White (FFr per tonne): Oct 1702, Dec 1665, Mar 1667

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High/Low
Oct	20.02	20.11	20.12 19.97
Nov	20.06	20.13	20.14 19.99
Dec	20.03	20.16	20.10 20.02
Jan	19.99	19.95	20.00 19.98
IPE Index	20.09	19.88	20.09

Turnover 21752 (22050)

GAS OIL – IPE ($/tonne)

	Latest	Previous	High/Low
Sep	193.25	192.50	194.00 191.75
Oct	194.75	194.50	195.50 193.50
Nov	196.25	196.25	197.00 194.00
Dec	197.50	197.25	197.75 195.75
Jan	194.50	194.50	195.25 193.75
Feb	189.00	189.00	190.00 189.00
Mar	182.50	182.50	182.50 182.00

Turnover 4394 (7578)lots of 100 tonnes

WOOL

Australian wool prices are barely steady, with fractional easing the pattern from sale to sale. More or less similar dull conditions apply in other primary markets, with New Zealand and now South Africa moving into the new selling season. Stockpiles exist in all three countries but New Zealand hopes to finish disposal in three years, while the Australian plan is to get rid of the much larger 4½ million bales stockpile over seven years. Sovit developments still hold much uncertainty with no prospect of an early resumption of buying on the scale established up to just over a year ago.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Sep	644	651	648 640
Dec	684	691	688 679
Mar	722	728	726 717
May	741	747	744 738
Jul	760	766	761 756
Sep	780	786	781
Dec	805	811	805 804
Mar	829	836	829 828
May	846	854	845
Jul	863	872	863

Turnover: 3807 (3721) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Aug 27 864.52 (864.84) 10 day average for Aug 28 855.54 (851.67)

COFFEE – London FOX (£/tonne)

	Close	Previous	High/Low
Sep	518	528	525 518
Nov	547	557	564 546
Jan	570	580	576 569
Mar	590	599	594 589

Turnover: 10791 (12553) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Aug 27 : Comp. daily 65.46 (64.77) 15 day average 62.72 (62.63)

POTATOES – London FOX (£/tonne)

	Close	Previous	High/Low
Apr	118.0	120.8	121.0 117.2

Turnover 350 (434) lots of 20 tonnes.

SOYAMEAL – London FOX (£/tonne)

	Close	Previous	High/Low
Dec	136.50	138.00	136.50

Turnover 35 (180) lots of 20 tonnes.

FREIGHT – London FOX ($10/index point)

	Close	Previous	High/Low
Sep	1643	1655	1650 1640
Oct	1715	1731	1720 1700
Jan	1718	1734	1720 1710
Apr	1700	1733	1710 1700
BFI	1526	1521	1526

Turnover 329 (833)

GRAINS – London FOX (£/tonne)

Wheat	Close	Previous	High/Low
Sep	113.15	112.85	113.10 112.95
Nov	116.80	116.70	116.80 116.60
Jan	120.40	120.40	120.45 120.25
Mar	123.70	123.70	123.70
May	126.50	126.45	126.45
Barley	**Close**	**Previous**	**High/Low**
Sep	109.65	109.45	109.40
Nov	113.50	113.30	113.50 113.40
Jan	119.75	116.90	119.70 119.55

Turnover: Wheat 438 (280), Barley 22 (55).
Turnover lots of 100 tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Sep	91.0	91.5	92.0 91.0
Oct	100.0	99.8	100.0
Jan	102.5	102.0	102.5

Turnover: 12 (25) lots of 3,250 kg

MGMI – London FOX

	Close	Prev.	High	Low	Vol
Indx	137.42	136.46			
Sep	138.30	136.40	138.50	138.30	90
Oct	139.00	137.50	139.40	139.00	150
Nov	139.20	138.60	139.20	138.70	90
Dec	139.20	138.80	139.20	138.90	70

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 15,681 lots
Cash	1258-9	1252-4	1261	1261-2		
3 months	1289-90	1283-4	1296/1280	1282-4	1286-7	103,882 lots
Copper, Grade A (£ per tonne)						Total daily turnover 40,108 lots
Cash	1356-7	1343-4	1358/1356	1257-8		
3 months	1356-7	1351-2	1364/1356	1361-2	1353-3.5	127,152 lots
Lead (£ per tonne)						Total daily turnover 1,750 lots
Cash	317-7.5	318-9	318/317	317.5-18		
3 months	329-30	330-0.5	333/330	330-30.5	329-31	28,806 lots
Nickel ($ per tonne)						Total daily turnover 4,584 lots
Cash	7830-40	7890-95	7835	7835-40		
3 months	7880-85	7940-45	7900/7865	7875-80	7880/7890	14,191 lots
Tin ($ per tonne)						Total daily turnover 1,267 lots
Cash	5575-85	5585-90	5555/5540	5553-5		
3 months	5655-60	5665-70	5680/5635	5635-45	5660-5	7,400 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 10,044 lots
Cash	1013-15	1022-24	1013	1013-3.5		
3 months	1033-34	1043-4	1043/1030	1033-4	1032-3	26,325 lots

LME Closing £/$ rate: SPOT: 1.6899 3 months: 1.6692 6 months: 1.6540 9 months: 1.6383

LONDON BULLION MARKET (Prices supplied by N.M.Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	354.20-354.70	
Opening	354.85-355.15	
Morning fix	355.30	211.866
Afternoon fix	354.50	209.987
Day's high	356.30-356.60	
Day's low	353.80-354.10	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.29	6 months	5.08
2 months	5.19	12 months	5.02
3 months	5.13		

Silver fix	p/fine oz	US cts equiv
Spot	235.70	395.00
3 months	241.95	400.60
6 months	247.90	406.15
12 months	260.50	418.95

GOLD COINS (Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	355.00-358.00	210.00-210.50
Maple leaf	364.00-365.00	215.25-215.75
New Sovereign	86.00-87.00	51.00-51.50

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Dec	Sep	Dec
1150	116	147		3
1250	20	88	4	20
1300		20	84	72
Copper (Grade A)	**Calls**		**Puts**	
2150	138	132		28
2250	42	72	4	66
2350	1	34	63	126
Coffee	**Nov**	**Jan**	**Nov**	**Jan**
450	95	119		
500	49	73	3	4
550	15	36	19	17
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
650	58	99	25	26
675	44	82	36	35
700	34	68	51	46
Brent Crude	**Oct**	**Nov**	**Oct**	**Nov**
2000	28	59		
2050	10			
2100		26		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Aug	353.9	354.4	355.9	354.2
Sep	353.9	354.4	0	0
Oct	355.6	356.2	357.6	354.5
Dec	358.9	359.5	361.1	357.7
Feb	362.0	362.7	362.5	361.0
Apr	365.0	365.7	367.2	367.2
Jun	368.1	3368.9	0	0
Aug	371.3	372.2	0	0
Oct	374.3	375.3	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	341.5	333.5	341.8	338.2
Jan	345.8	337.6	345.5	342.5
Apr	349.5	341.3	351.0	346.5
Jul	353.5	346.3	354.0	351.0
Oct	360.5	352.3	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Aug	392.2	391.0	392.5	391.6
Sep	392.3	391.3	394.0	391.5
Oct	394.1	393.2	0	0
Dec	398.8	397.9	401.0	397.5
Jan	400.3	399.4	0	0
Mar	405.5	404.6	408.5	405.0
May	410.1	409.2	410.0	408.5
Jul	414.6	413.8	0	0
Sep	419.3	418.6	420.0	420.0
Dec	426.7	426.1	428.0	428.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	104.30	103.40	104.30	103.90
Sep	103.65	102.90	103.70	102.90
Oct	103.15	102.50	103.20	102.65
Nov	102.95	102.20	102.85	102.40
Dec	102.65	101.85	102.75	101.90
Jan	102.10	101.35	101.70	101.50
Feb	101.50	100.85	101.15	101.00
Mar	100.95	100.30	100.80	100.20
Apr	100.45	99.80	0	0
May	99.95	99.30	99.60	99.25

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Oct	21.79	21.96	21.94	21.72
Nov	21.66	21.86	21.84	21.62
Jan	21.49	21.65	21.60	21.45
Feb	21.39	21.52	21.46	21.36
Apr	21.08	21.22	21.14	21.09
May	21.00	21.03	21.03	21.03
Jun	20.85	20.98	0	0
Jul	20.80	20.90	20.80	20.80

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Sep	6215	6220	6230	6195
Oct	6315	6311	6325	6290
Nov	6410	6415	6420	6395
Dec	6505	6505	6520	6480
Jan	6520	6528	6530	6500
Feb	6370	6373	6375	6350
Mar	6120	6116	6120	6100
Apr	5880	5898	5880	5880
May	5720	5743	5736	5735
Jun	5648	5670	5725	5595

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Sep	1025	1022	1030	1015
Dec	1072	1069	1086	1060
Mar	1123	1117	1134	1110
May	1152	1146	1160	1145
Jul	1178	1170	0	0
Sep	1202	1193	0	0
Dec	1233	1226	0	0
Mar	1270	1266	0	0
May	1295	1289	0	0
Jul	1321	1311	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Sep	84.20	84.40	84.00	83.55
Dec	87.45	87.40	87.45	86.60
Mar	90.90	90.90	91.40	90.00
May	93.70	93.40	93.30	93.00
Jul	96.10	95.90	0	0
Sep	98.70	98.60	98.00	98.00
Dec	103.00	103.50	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	8.91	8.88	9.00	8.77
Mar	8.41	8.34	8.45	8.29
May	8.34	8.28	8.37	8.25
Jul	8.31	8.27	8.34	8.26
Oct	8.32	8.30	8.38	8.31

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	66.03	66.95	66.15	65.20
Dec	66.62	67.54	66.74	65.90
Mar	67.57	68.13	67.75	67.09
May	68.20	68.95	68.30	67.70
Jul	68.75	66.83	68.86	68.75
Oct	67.50	0	67.20	67.20

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	118.75	119.20	119.80	119.05
Nov	117.50	116.70	117.70	116.95
Jan	115.30	114.85	115.50	115.00
Mar	116.40	116.00	116.50	116.10
May	117.35	116.75	117.00	117.00
Jul	117.35	116.75	117.25	117.00
Sep	117.35	116.75	0	0
Nov	117.35	116.75	0	0
Jan	117.35	116.75	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Aug.28	Aug.27	mnth ago	yr ago
1658.5	1669.8	1724.1	1791.3

DOW JONES (Base: Dec. 31 1974 = 100)

	Aug.27	Aug.26	mnth ago	yr ago
Spot	117.92	118.04	121.38	131.49
Futures	122.10	121.96	123.85	133.37

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Sep	570/4	574/6	585/4	570/0
Nov	583/0	596/6	598/0	582/0
Jan	594/4	597/6	608/4	593/4
Mar	604/2	608/0	618/0	604/0
May	612/2	616/0	625/0	612/0
Jul	618/0	621/0	629/4	618/0
Aug	615/0	621/0	623/0	615/0
Sep	598/0	600/0	606/0	598/0
Nov	596/0	598/4	601/4	596/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Sep	19.86	19.96	20.28	19.85
Oct	20.04	20.12	20.43	20.01
Dec	20.41	20.46	20.83	20.40
Jan	20.60	20.68	20.98	20.58
Mar	20.93	21.01	21.35	20.92
May	21.11	21.20	21.60	21.11
Jul	21.36	21.51	21.80	21.36
Aug	21.40	21.51	21.85	21.40
Sep	21.40	21.51	21.90	21.40
Oct	21.40	21.51	22.00	21.40

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Sep	185.9	185.0	188.6	184.5
Oct	184.3	183.6	187.4	182.8
Dec	183.3	182.4	187.0	181.8
Jan	182.6	182.5	186.3	181.5
Mar	182.6	182.7	185.9	181.5
May	181.2	182.6	184.5	181.0
Jul	180.5	181.0	184.0	180.0
Aug	181.0	181.0	183.0	181.0
Sep	180.5	181.0	0	0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Sep	250/0	251/6	253/6	249/6
Dec	254/4	256/4	258/2	254/0
Mar	261/4	262/4	265/2	261/2
May	265/6	267/4	269/2	265/4
Jul	268/0	270/0	271/2	267/6
Sep	254/0	256/0	257/0	254/0
Dec	250/6	252/6	253/4	250/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Sep	305/2	302/6	309/0	302/0
Dec	317/4	316/2	322/0	315/4
Mar	322/2	321/6	326/4	321/4
May	315/4	317/4	320/4	315/4
Jul	304/6	307/0	310/4	304/4
Sep	313/0	314/4	316/4	313/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	69.95	71.05	70.55	69.70
Dec	73.07	74.07	73.50	72.75
Feb	72.05	72.50	72.32	71.40
Apr	72.95	73.15	73.20	72.55
Jun	70.92	71.17	71.10	70.50
Aug	69.40	69.60	69.65	69.40

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	43.85	44.82	44.37	43.72
Dec	43.65	44.25	44.00	43.42
Feb	43.30	43.60	43.40	43.02
Apr	41.62	42.05	41.90	41.65
Jun	45.90	45.95	45.90	45.80
Jul	46.02	46.07	46.05	45.85
Aug	44.45	44.47	0	44.45

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	47.60	48.70	48.05	47.02
Mar	47.20	48.25	47.50	46.60
May	48.00	49.10	48.30	47.55
Jul	48.10	48.05	48.10	47.50
Aug	45.10	45.10	0	0

LONDON STOCK EXCHANGE

Special deals boost trading volumes

By Terry Byland, UK Stock Market Editor

A LONDON stock market still waiting for the dust to clear in eastern Europe busied itself yesterday with a batch of equity deals which gave a significant boost to trading volumes. An attempt to rally from the fall of the previous day was unsuccessful, however, and early gains had been largely whittled away by the close of business.

Views by UK equity strategists on prospective developments in eastern Europe were put on hold as Mr John Major, the UK prime minister, began his visit to the US, which will be followed by meetings with Soviet leaders.

At Barclays de Zoete Wedd, Mr Richard Kersley commented that after last week's momentous events, the near-term outlook for the market is again "dependent on the strength and timing of the economic recovery".

Account Dealing Dates			
First Dealings:	Aug 12	Sep 2	Sep 16
Option Declarations:	Aug 29	Sep 12	Sep 26
Last Dealings:	Aug 30	Sep 13	Sep 27
Account Day:	Sep 9	Sep 23	Oct 7

New-time dealings may take place from 8.30 am two business days earlier.

Equities opened slowly before being helped ahead once again by the FT-SE futures contract, but could only manage a gain of ten Footsie points before losing impetus. The big institutions continued to hold back, partly because of expectations that Ladbroke, the hotel and leisure group, will hit the London market with a near £500m right issue when it reports interim profits this morning.

Interest soon turned to a number of unexpected developments in the corporate sector, and the broad range of the market drifted back towards its overnight levels, despite a gain of 9.17 Dow points in New York during London hours. By the final reading of 2,624.2, the gain on the FT-SE 100 Index had been cut to only 4.4 points.

Seaq volume increased to 514.9m shares from Tuesday's 320.1m, but traders maintained that this in no sense signified a return to the hectic trading conditions experienced a week ago.

Turnover was boosted by double counting involved in sizeable placings of stock in a handful of issues, notably Royal Insurance, Hambros, and Howden.

There was also a substantial trading programme made up of both buy and sell orders for a range of blue chip issues, operated by a leading UK investment bank. The programme trades moved across the Seaq electronic network after the close of dealing for the day.

The market was helped by a generally firm performance among the blue chips. Consumer stocks continued to edge higher, with some high street stores standing out firmly on hopes that the worst of the recession in domestic consumer spending has now been seen. ICI, still seen as an indicator of market confidence, gained further ground.

In spite of the calmer tone this week in the London market, UK strategists remain confident that share prices can make further ground this year, always with the proviso that the Soviet crisis can be resolved.

At Kleinwort Benson Securities, Mr Roger Palmer believes that institutional investors, anxious to reduce liquidity further, may have missed the opportunity last week and will continue to seek stock for the balance of the summer. Kleinwort is urging clients to add to UK funds on market weakness, but adds that investors might hold back while the market remains near its all-time highs.

Mr Richard Lake at Hoare Govett is also bullish, pointing out that most stocks immediately found buyers following the setback on Red Monday last week.

FINANCIAL TIMES STOCK INDICES

	Aug 28	Aug 27	Aug 23	Aug 22	Aug 21	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	85.80	85.78	85.84	85.94	85.65	78.09	85.94 (22/8)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	94.89	94.99	94.91	94.93	94.80	86.44	94.93 (22/8)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share ●	2053.9	2059.0	2069.3	2058.1	2033.7	1858.9	2069.3 (23/8)	1606.3 (16/1)	2069.3 (23/8/91)	49.4 (26/6/40)
Gold Mines	158.1	159.0	162.0	167.7	173.2	188.8	222.8 (11/7)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2624.2	2619.8	2640.7	2623.0	2601.9	2125.7	2640.7 (23/8)	2054.8 (16/1)	2640.7 (23/8/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1184.61	1182.85	1181.56‡	1176.56	1168.21	-	1192.11 (5/6)	938.62 (16/1)	1192.11 (5/6/91)	938.62 (16/1/91)
●Ord. Div. Yield	4.82	4.83	4.80	4.88	4.88	5.71				
●Earning Yld %(full)	7.53	7.56	7.48	7.54	7.62	12.16				
●P/E Ratio(Net)(☆)	16.56	16.52	16.88	16.55	16.37	9.98				
SEAQ Bargns 4.45pm	26,858	28,515	32,488	30,772	27,821	16,307				
Equity Turnover(£m)†	-	838.09	968.66	1129.95	1090.95	560.84				
Equity Bargains†	-	29,687	32,182	30,820	27,546	16,891				
Shares Traded (ml)†	-	284.5	415.4	424.5	457.8	273.1				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90 ☆ Nil 15.76 ‡ Corrected

Ordinary Share Index, Hourly changes — Day's High 2060.8 — Day's Low 2048.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2048.4	2054.4	2058.5	2060.0	2057.4	2057.3	2056.4	2055.0	2053.6

FT-SE 100, Hourly changes — Day's High 2630.6 — Day's Low 2617.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2617.3	2623.4	2626.4	2630.4	2627.5	2629.2	2628.7	2626.1	2622.8

FT-SE Eurotrack 200, Hourly changes — Day's High 1187.18 — Day's Low 1183.90

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1184.30	1185.09	1186.43	1185.91	1186.20	1185.14	1184.71

GILT EDGED ACTIVITY

Indices*	Aug 27	Aug 23
Gilt Edged Bargains	77.2	65.7
5-Day average	76.7	78.3

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001

Heavy trade in Royal

Royal Insurance, the composite insurer, featured prominently as one of the most actively traded stocks in the Footsie index list. Some 12m shares in Royals were traded, with the turnover made up virtually exclusively of a series of deals between brokerage houses, respectively two lines of 2m shares and then a further two of 3.7m shares apiece. The agency deals, equivalent in total to 4.2 per cent of the equity, were carried out by Robert Fleming Securities.

The broker acknowledged it had been heavily involved in Royals but said it had reaffirmed its bullish stance on the stock after talking to the group on Tuesday. Flemings cited evidence that the insurance cycle in the US and Canada is turning in favour of Royal, and that strong rate rises in the UK and takeover potential are also bull points for the shares. The broker also said that worries about Royal's mortgage indemnity business – Royals has a similar market share to Eagle Star – had been overplayed; it believes that the quality of Royal's mortgage indemnity business is much higher than Eagle Star's, which recently shocked the stock market by disclosing substantial losses in this area. Royal shares settled a penny off at 388p.

Hambros deals

The market took the placing of the 6 per cent stake in Hambros, the merchant bank, held by Banco Bilbao Vizcaya, the Spanish bank, in its stride, with the Hambros share price unshakeable at 288p, unaltered on the day.

The Seaq ticker showed up details of the placing, said to have been carried out by SG Warburg Securities. A line of 9.7m Hambros shares was recorded as having been traded at 271p while another block of 9.2m traded soon afterwards at 274p, indicating that the placing had been done on a bought deal basis with the broker taking a 3p a share turn.

The Banco Bilbao stake is the second big holding in the merchant bank to have been dispersed this year. Baltica, the Danish financial services company, sold a near 14 per cent stake in April, having unsuccessfully sought a co-operation agreement with the bank and its UK and Continental associates, which at the time included Banco Bilbao, Banco San Paolo di Torino and Guardian Royal Exchange.

The Baltica stake was sold at 259p and it quickly emerged that Banco Bilbao was a willing seller of its shareholding. The stake has since been overhanging the market.

Specialists said Banco Bilbao had held out for the right price for its holding and that the placing of a near 20 per cent stake in Hambros in such a short space of time indicated the absence of any predators for the merchant bank.

SmithKline active

SmithKline Beecham was one of the better performers of the day among FT-SE 100 stocks after US company Bolar Pharmaceutical agreed to pay the company $40m (£23.8m) in settlement of a lawsuit.

SmithKline's suit challenged Bolar's manufacture of a generic version of the drug Dyazide, used to treat high blood pressure.

Dyazide, with US sales of about $200m a year, has been dogged by controversy. A US House of Representatives subcommittee is examining how SmithKline is maintaining its monopoly in Dyazide. Last year former Bolar executives admitted obstructing an investigation into whether the company had submitted false evidence on Dyazide to the US Food and Drug Administration.

UBS Phillips & Drew took the opportunity to reiterate its buy recommendation on SmithKline after the settlement.

Traders said that the 9 gain in SmithKline's A shares to 791p was assisted by switching from the equity units. The units added 35 – less in proportional terms – to 3448p. The equity units consist mainly of five A shares and are designed to be more tax efficient for shareholders in the US, where most of them are held. Bolar shares climbed by more than one third in early trading in the US.

Brent Walker steady

News that Brent Walker had called in the Serious Fraud Office hit the shares hard in early trading. They lost more then 16 per cent of their value before nerves steadied after the company's chairman said any investigation would not interfere with the company's restructuring plans.

The shares eventually steaded at 20½p, a fall of just a penny on the day in moderate turnover. One of Brent Walker's biggest creditors, Standard Chartered Bank, was 9 lower at one point before ending at 374p, a net decline of 7.

Ladbroke's gyrations continued ahead of a widely forecast rights issue today. The shares recovered 7 to 274p.

Royals apart, there were plenty of stories circulating in the insurance sector. Guardian Royal Exchange (GRE) came under late selling pressure, closing a net 5 down at 181p on heavy turnover of 4.8m shares as dealers reacted to rumours that the composite insurer could launch a big rights issue along with its interim results, scheduled for the morning. Most specialists were sceptical of the rights stories but agreed the interim figures would be poor. The market range is for GRE to produce a loss of something between £60m and £100m, against a comparable loss of £93m, with the dividend held at 4.4p.

Sun Alliance, also suffering from market perceptions that it would be as hard hit as Eagle Star on its mortgage indemnity account when it reports interims on September 5, lost 3 to 358p. Analysts have been pencilling in a projected half-time loss in excess of £100m for Sun Alliance, but say its balance sheet and solvency margins are much better placed to absorb any big losses.

The impact of such heavy losses in the mortgage indemnity area was highlighted by Smith New Court, the stockbroker, which yesterday published its estimates of the damage wrought by mortgage indemnity to another big player in that area, Legal & General (L & G).

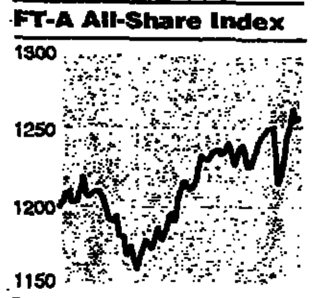
Mr Roman Cizdyn at Smith said he had shifted his full year forecast for L & G from a projected profit of £70m to a projected loss of £49m. He expects L & G to record an interim loss of £85m when the figures are announced on September 12, against a profit of £41.5m last time, to take account of a £120m loss on mortgage guarantee. Smith still expects L & G to increase the interim, by 5 per cent to 6.2p, as a sign of confidence in the life fund. L & G shares closed 3 firmer at 439p.

ICI outperformed the rest of the market after traders caught wind of a presentation being made by the company to institutions at Kleinwort Benson. However, Mr Jeremy Chantry at Kleinwort said that he was not changing his view of the company as a result of the meeting. He added that he was increasingly of the view that Hanson was unlikely to use its 2.8 per cent stake in ICI to launch a bid. ICI firmed 9 to 1339p nevertheless.

In an otherwise quiet brewing sector, Greenalls climbed 9 to 357p after a recommendation from County NatWest.

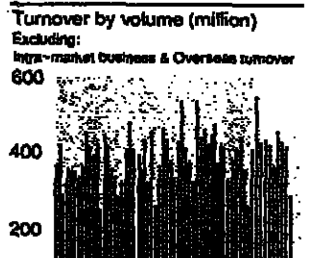
Tesco recovered well after recent weakness, while Argyll lost ground. Traders said institutions had been switching out of Argyll, a penny lower at 302p. Tesco added 5 at 271p as a brisk 4m changed hands.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



The textile sector was enlivened by good two-way business in Coats Viyella and Courtaulds Textiles ahead of their interim results next week. Coats, which reports on Wednesday, slipped 2 to 172p. Courtaulds, which reports the following day, was a penny easier at 394p.

Unusually heavy trading in Rosehaugh was blamed on the programme trade by County NatWest. Turnover totalled 2.4m as the shares held at 28p.

Wates City of London continued to benefit from this week's good figures. Positive press comment helped the shares climb 6 to 115p.

Bredero Properties moved in the other direction after posting an interim loss of £1.3m (£1m). The shares shed 3 to 59p.

Wassall shares were among the most heavily traded in the market as its two brokers, S G Warburg and Panmure Gordon, crossed stock. The two-way stance on the stock ensured that the share price was unchanged at 173p.

Car auction group ADT fell 21 to 480p, losing all the gains of the previous day. The group suspended its dividend on Monday and announced extensive debt-reduction plans.

MARKET REPORTERS:
Daniel Green,
Peter John,
Steve Thompson.

■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 18.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	408	460	-21
ASDA Group	2,400	91	+1
Abbey National	1,900	308	-1
Albert Fisher	2,700	102½	-½
Allied-Lyons	1,400	577	+1
Amstrad	4,300	52	-1½
Anglian Water	522	371	+2
Argos	2,800	339	+3
Argyll Group	4,200	302	-1
Arjo Wiggins	865	281	
Ass. Brit. Foods	1,000	512	-3
BAA	2,600	420	-4
BAT Inds.	4,100	884	+6
BET	1,100	218	-4
BICC	1,900	446	-8
BOC	667	588	+4
BPB Inds.	103	236	+1
BTR	1,500	421	+1
Bank of Scotland	4,300	123	
Barclays	2,100	475	+2
Bass	1,900	985	+7
Beazer	719	91	-1
Beresford Int	35	35	
Blue Circle	1,900	288	+2
Booker	146	478	-1
Boots	1,800	430	+1
Bowater	517	675	+5
Brit. Aerospace	1,200	578	+5
British Airways	2,500	178	+1
British Gas	3,000	270½	-2
British Land	1,400	307	+1
BP	3,400	344	-2
British Steel	1,800	127	+1½
British Telecom	2,500	388	-2
Bunzl	12,000	105	-1
Burmah Castrol	809	575	+3
Burton	279	48½	-½
Cable & Wire.	1,400	582	-8
Cadbury	2,000	389	+5
Calor Group	229	230	-4
Carlton Comms.	808	486	-7
Coats Viyella	960	172	-2
Comm. Union	922	517	
Cookson	2,800	122	+6
Courtaulds	814	477	+4
Dalgety	228	417	+3
De La Rue	852	448	-5
Dixons	380	285	
ECC Group	296	482	+2
Eastern Elect	480	178	-2
East Midland Elect	771	198	-3
Enterprise Oil	873	518	
Eurotunnel Units	455	498	+3
FKI	588	69	
Ferranti	900	8½	
Fisons	1,500	498	
Forte	1,800	282	+2
Gen. Accident	1,200	536	+3
General Elect.	1,300	191	-1½
Glaxo	1,200	1341	+1
Glynwed Int.	134	353	+3
Granada	1,600	170	
Grand Met.	2,700	822	+1
GUS A	562	1384	+3
GRE	4,800	181	-5
GKN	493	374	+2
Guinness	361	991	-1
Hammerson 'A'	336	625	-1
Hanson	7,000	217½	-½
Hanson Warrants	1,400	33½	
Harrisons Crosfield	3,200	158	+1
Hawker Sidd.	887	594	+2
Hillsdown	1,700	236	
IMI	78	261	-2
ICI	1,300	1339	+9
Inchcape	136	576	+3
Kingfisher	1,500	578	+8
Ladbroke	2,400	274	+7
Land Securities	728	518	+1
Laporte	220	589	+2
Legal & General	814	439	+3
Lloyds Abbey	97	425	-3
Lloyds Bank	2,700	380	
LASMO	2,300	321	-3
London Elect.	158	189	-2½
Lonrho	1,400	241	
Lucas	1,500	156	+2
MB Caradon	1,600	256	+3
MEPC	525	479	+1
Manweb	326	345	-1
Marks & Spencer	5,900	287	-1
Maxwell Comms.	78	185	
Midland Bank	2,800	252	+5
Midlands Elect.	457	205½	
NFC	2,800	198	-1
NatWest Bank	1,400	349	
National Power	8,900	152½	+1
Next	4,500	33½	+½
North West Water	312	364	+2
Northern Elect.	336	207	+2
Northern Foods	106	515	
Norweb	765	218	-2
Pearson	441	748	-3
P & O	1,200	575	-3
Pilkington	3,100	186	+2
PowerGen	5,100	186½	
Prudential	3,800	257	+2
RHM	3,200	282	+3
RMC	409	666	+6
RTZ	1,700	589	
Racal	3,900	224	+1
Racal Telecom	1,400	345	+4
Rank Org.	484	730	-2
Reckitt & Colman	521	885	+1
Redland	1,000	574	+1
Reed Intl.	866	468	-2
Rentokil	59	175	+1
Reuters	595	881	+5
Rolls Royce	5,500	134½	+2½
Rothmans	359	1090	+6
Ryl Bk Scotland	1,400	187	+2
Royal Insurance	12,000	398	-1
Saatchi	1,200	16	-½
Sainsbury	3,200	360	+1
Scottish & New.	1,200	459	
Scot. Hydro-Elect.	3,300	112	
Scottish Power	4,800	105½	
Sears	2,800	88	
Sedgwick	919	277	-1
Seaboard	376	199	
Severn Trent Water	1,500	334	+2
Shell Transport	3,200	529	
Siebe	2,100	511	-6
Slough Ests	56	282	
Smith (W.H.) A	330	447	-2
Smith & Nephew	2,300	138¼	+½
SmKl Beecham	1,700	791	+9
SmKl Beecham Uts.	169	3448	+35
Smiths Inds.	315	294	+1
Southern Elect.	1,500	200½	-1½
South Wales Elect.	53	348	-3
South West Water	338	347	+2
South West. Elect.	185	302	-1
Southern Water	714	338	+4
Standard Chartd	677	374	-7
Storehouse	92	111	
Sun Alliance	1,800	358	-3
T&N	186	174	
TI Group	419	567	
TSB	1,600	158	+½
Tarmac	1,500	231	+4
Tate & Lyle	604	392	
Taylor Woodrow	502	223	+1
Tesco	4,000	271	+5
Thames Water	738	367	
Thorn EMI	356	797	+1
Tomkins	495	378	
Trafalgar House	881	246	+8
Ultramar	1,700	278	+1
Unigate	649	329	
Unilever	1,300	758	-1
United Biscuits	3,200	397	+1
Utd Newspapers	625	393	+1
Wellcome	753	745	+9
Welsh Water	201	365	+2
Wessex Water	236	373	-1
Whitbread 'A'	1,600	495	-2
Williams Hldgs	1,700	342	+1
Willis Corroon	882	308	+3
Wimpey	1,400	174	-4
Yorkshire Elect.	706	235	+1½
Yorkshire Water	223	383	

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

VOLUME in the derivatives was below expectations yesterday as an anticipated boost from the Traded Options Market failed to materialise, writes Peter John.

Turnover in LTOM was below 28,000 in spite of the expiry of the August-dated equity options. The top three equity traders – Racal, BTR and RTZ – were all August options but traders said investors were not rolling their positions over into the November contract.

Mr David Stuff of BZW said: "Most people we speak to feel that volatility is set to increase and there is not sufficient premium in the market to justify investment."

Because the Options market concentrates on Footsie stocks, turnover was also hit by the attention given in the cash market to second liners.

On the Liffe, the September Footsie future opened strongly as traders hedged against a large programme trade in the underlying market. More than a third of the day's business was done by 9.30am.

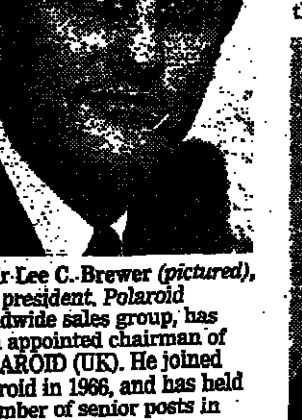
Then, the momentum died away as uncertainty crept in over the direction of market. At the official close the September contract was at 2,647 – a premium of 23 to the underlying FT-SE Index, with fewer than 3,000 lots dealt.

NEW HIGHS AND LOWS FOR 1991

NEW HIGHS (84).
BRITISH FUNDS (1) Cnv. 10pc 1996 B. **AMERICANS** (3) California Energy, Data Gen., Whirlpool. **FOREIGN BONDS** (1) Hydro Quebec 15pc 2011. **BANKS** (1) HSBC. **CHEMICALS** (2) Hickson Intl., Plysu. **STORES** (6) Argos, Bedford (Wm), Crown Eyeglass, Fine Art Devs., Hartstone. **ELECTRICALS** (4) ACT, Black & Decker, Electrocomponents, Nthn. Telecom. **ENGINEERING** (3) Richardsons Westgarth, Rotork, Victaulic. **FOODS** (3) BSN, Nthn. Foods, Park. **HOTELS** (1) Resort. **INDUSTRIALS** (25) Astra B. Beepak, Bowater, Do 7.75pc Cnv. Prf., Brammer, Diploma, EIS, Halma, Hays, Hepworth, Johnson Cleaners, Lilly (E), Lionheart, MB Caradon 7.25p Prf., Macarthy, Paterson Zochonis A N/V, Pentland, Portals, St. Gobain, Seton Healthcare, Shanks & McEwan, Sidlaw, TT, Trafalgar Hse. A, Wellcome, Wolseley. **LEISURE** (3) Central ITV, Euro Disney, Zetters. **MOTORS** (3) Evans Halshaw, Sanderson Murray Elder, Vardy (Reg). **NEWSPAPERS** (2) EMAP, Utd News. **PAPERS** (3) Gold Greenlees Trott, Shandwick, Smith (DS). **TEXTILES** (1) Lamont. **TRANSPORT** (4) CSX, Lon. & O'seas Freighters, NFC, Tiphook. **TRUSTS** (18) Abtrust Prfd. Zero Prf., Contra-Cyclical Zero Prf., Dunedin Inc. Growth, EFM Inc. Zero Prf., EFT, Elect. & General, I & S Optimum Inc. Zero Prf., INVESCO MIM, Latin American, Law Debenture, M & G, Rathbone Bros., River Plate Zero Prf., Scottish Natl. Zero Prf., Stratton, TR Technology Stppd. Prf., **OILS** (3) Fairhaven, Intl. Petroleum, Occidental.
NEW LOWS (23).
CANADIANS (1) Breakwater Res., **BUILDINGS** (3) Cooper Clarke, Freeman, Phoenix Timber. **STORES** (1) Brown & Jackson. **ELECTRICALS** (1) Wharfedale. **ENGINEERING** (1) Rolls-Royce. **FOODS** (1) Greggs. **INDUSTRIALS** (4) Davies (DY), Grovewood, Hornby, Willaire. **LEISURE** (2) Expedier, Millwall. **MOTORS** (1) Bostrom. **PROPERTY** (4) Bredero, Cap & Counties, Five Oaks, Warnford Inv., **TRUSTS** (1) Gresham House. **OILS** (3) Atlantic Res., Richmond, Sceptre Res.

APPOINTMENTS

Chairman of UK Polaroid

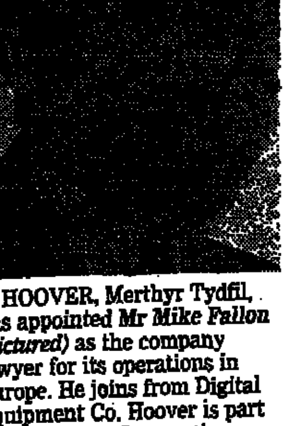


■ Mr Lee C. Brewer (pictured), vice president, Polaroid worldwide sales group, has been appointed chairman of POLAROID (UK). He joined Polaroid in 1966, and has held a number of senior posts in the US organisation.

Sir Martin Jacomb joins Marks and Spencer

■ MARKS AND SPENCER is appointing Sir Martin Jacomb a non-executive director from September 1. Sir Martin is deputy chairman of Barclays Bank and, until October 31, chairman of Barclays de Zoete Wedd. He is also on the boards of the Commercial Union Assurance Company and RTZ Corporation. In February 1992 he takes over as chairman of the British Council.

■ Mr Richard Tyekiff has been appointed managing director at AARONITE, fire protection specialists, which became part of Tarmac in 1988. The company is based at Pinxton in Nottinghamshire and Stavanger in Norway. Mr Tyekiff was a co-founder of the company in 1974.



■ HOOVER, Merthyr Tydfil, has appointed Mr Mike Fallon (pictured) as the company lawyer for its operations in Europe. He joins from Digital Equipment Co. Hoover is part of the Maytag Corporation, of Iowa, US.

■ Mr Jeremy Budden has become managing director, personal management division, SEDGWCK FINANCIAL SERVICES. He joined as a junior consultant 10 years ago, and became deputy managing director in 1988.

■ Mr Raymond Simonds becomes franchise director of PAULIG (UK) from September 2. He was business development director of United Biscuits International.

■ EVERED BARDON, Solihull, a quarry products group, has appointed Mr Tim Grimes as group commercial manager. He left the group earlier this year, after five years as company secretary.

■ Mr Andrew Stafford (pictured) has been appointed managing director of SPEAR AND JACKSON GARDEN PRODUCTS, Wednesbury. He was managing consultant, south western region, Coopers & Lybrand Deloitte.

■ Mr Alan Binder, a former president of Shell International Trading Company, has been appointed non-executive chairman of UNITED COMMUNICATIONS, part of the network of Avenir Havas Media, from September 9. UC is the holding company for Mills & Allen UK; Sky Sites; and Pearl & Dean International. Mr Binder will have particular responsibility for Mills & Allen.

■ CHARTERHOUSE TILNEY has promoted Mr Andrew Ramsbottom to director in the investment management division. Mr Ramsbottom will continue as a member of the pension fund team lead by Mr Philip Okell.

■ BOSTIK has appointed Mr David Leake (pictured) as financial director and company secretary. He has been with the company for 16 years and was financial controller.

LONDON SHARE SERVICE

BRITISH FUNDS

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
100¾	99¾	Exch 11pc 1991	100	.....	11.00	10.51
99¾	96½	Treas 8pc 1991	99¾	.....	8.0[illegible]	10.29
101½	100½	Treas 12¾pc 1992‡‡	100½	.....	12.6[illegible]	10.29
99¾	97½	Treas 10pc 1992	99½xd	.....	10.0[illegible]	10.30
132¼	125¼	Treas 2pc IL 1992‡‡	132¼xd	.....	2.0[illegible]	8.26
98½	95½	Treas 8pc 1992‡‡	98¼	.....	8.1[illegible]	10.21
100¾	98½	Treas 10½pc Cv 1992‡‡	100¼	+¼	10.4[illegible]	10.22
95½	91¾	Treas 3pc 1992	95¾	.....	3.1[illegible]	8.30
102¾	100¼	Exch. 12¼pc '92	102	.....	12.0[illegible]	10.04
104¼	102½	Exch 13½pc 1992	103½xd	.....	13.0[illegible]	10.05
97½	94	Treas 8¾pc 1993	97½	-¼	8.4[illegible]	9.98
100	97¼	Treas 10pc 1993‡‡	99½	-¼	10.0[illegible]	10.01
104½	102¼	Treas 12½pc 1993‡‡	104	.....	12.0[illegible]	10.05
94	89¾	Funding 6pc 1993‡‡	94xd	.....	6.3[illegible]	9.28
108½	105¾	Treas 13¾pc 1993‡‡	107¼	+¼	12.8[illegible]	10.08
96½	92½	Treas 8½pc 1994	96½	.....	8.7[illegible]	10.01
111¼	108¼	Treas 14½pc 1994‡‡	109½xd	.....	13.2[illegible]	10.05
109	105½	Exch 13½pc 1994	107½	+¼	12.5[illegible]	9.05
100	96½	Treas. 10pc Ln 1994‡‡	99¾	+¼	10.0[illegible]	10.02
106½	103¼	Exch. 12¼pc 1994	106¼	.....	11.7[illegible]	10.06
97¼	93¼	Treas 9pc 1994‡‡	97¼	+¼	9.2[illegible]	10.00
106¼	102¼	Treas 12pc 1995	105½	.....	11.3[illegible]	10.01
89	82¼	Exch 3pc Gas 90-95	86½	.....	3.4[illegible]	7.20
100½	96½	Exch. 10¼pc 1995	100½	.....	10.1[illegible]	10.00
109½	105¾	Treas 12¾pc 1995‡‡	109	.....	11.7[illegible]	10.04
113½	109½	Treas. 14pc '96	112½	.....	12.4[illegible]	10.28
97½	92½	Treas 9pc 1992-96‡‡	97½xd	+¼	9.2[illegible]	9.73
119½	115½	Treas 15¼pc 1996‡‡	118¼	+¼	12.9[illegible]	10.24
112¼	108	Exch 13¼pc 1996‡‡	111¼	.....	11.9[illegible]	10.18
Five to Fifteen Years						
100¾	95½	Conversion 10pc 1996	100	+¼	10.00	9.96
100	97¼	Do. 10pc 1996 B	100	+¼	10.11	9.98
113½	108½	Treas 13¼pc 1997‡‡	112¼	+¼	11.78	10.17
102½	97¼	Exch 10½pc 1997	101⅞xd	+¼	10.31	10.03
94¾	89½	Treas 8¾pc 1997‡‡	94¼xd	+¼	9.25	9.96
122¾	117	Exch 15pc 1997	120¾	.....	12.42	10.33
98½	93½	Exch. 9¾pc 1998	98¼	.....	9.89	10.03
86¾	80¼	Treas 6¾pc 1995-98‡‡	86½	.....	7.80	9.51
127½	121¼	Treas. 15½pc '98‡‡	126¾xd	+¼	12.29	10.23
109½	104¼	Exch. 12pc 1998	109¼	.....	10.98	10.13
98¼	92½	Treas 9½pc 1999‡‡	98¼	+¼	9.69	9.84
111½	105½	Exch 12¼pc 1999	110⅞xd	.....	11.05	10.15
102¾	97¼	Treas. 10½pc 1999	102¼	.....	10.26	10.03
101¼	95½	Conversion 10¼pc 1999	101	.....	10.15	10.03
95¼	89¼	Conversion 9pc 2000‡‡	95¼xd	.....	9.47	9.87
116½	110½	Treas. 13pc 2000	115½	.....	11.23	10.23
100¾	94¾	Treas 10pc 2001	100¼	.....	9.99	9.95
118½	113¾	Treas. 14pc '98-01	117¾	.....	11.92	10.31
98¾	92½	Treas 9¾pc 2002	98¼	+¼	9.90	9.97

BRITISH FUNDS—Contd

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
100¾	94¾	Treas 10pc 2003	100¾xd	.....	9.96	9.94
108¼	102	Treas 11½pc 2001-04	107¾xd	-¼	10.66	10.16
59¼	53¾	Funding 3½pc '99-04	59½	-¼	5.88	8.80
97¼	90½	Conversion 9½pc 2004	96½	.....	9.80	9.90
97½	90½	Conversion 9½pc 2005	97½	.....	9.79	9.89
118¾	111	Treas 12½pc 2003-05	117¾	-¼	10.65	9.99
Over Fifteen Years						
85½	79½	Treas. 8pc 2002-06‡‡	85¼	.....	9.38	9.89
112½	105½	Treas. 11¾pc 2003-07	111¾	.....	10.50	9.97
90¼	84½	Treas 8½pc 2007‡‡	89⅝	-¼	9.48	9.78
125¾	118½	Treas. 13½pc '04-08	124½xd	-¼	10.81	9.97
94½	88½	Treas. 9pc 2008‡‡	93¾	-¼	9.60	9.74
94½	89¼	Do. 9pc 2008 C	93¾	-¼	9.60	9.74
85½	80	Treas 8pc 2009	85¼xd	.....	9.38	9.73
94¾	88¼	Conv 9pc Ln 2011‡‡	93½	.....	9.63	9.74
61¾	59½	Cnv. 9pc 2011 A	61	-¼	9.63	9.74
63¼	58¼	Treas. 5½pc 2008-12‡‡	63xd	.....	8.73	9.64
82¼	76½	Treas. 7¾pc 2012-15‡‡	81¼	-¼	9.48	9.73
121½	113½	Exch. 12pc '13-'17	119½	.....	10.01	9.77
Undated						
40¼	37½	Consols 4pc	40¼	.....	9.97	-
35½	33¾	War Loan 3½pc‡‡	35¾	.....	9.79	-
59½	57¼	Conv. 3½pc '61 Aft.	59½xd	.....	5.89	-
29¾	28¼	Treas. 3pc '66 Aft.	29½	.....	10.11	-
25¼	23¾	Consols 2½pc	25¼	.....	9.93	-
25¼	23½	Treas. 2½pc	24½xd	.....	10.03	-

Index-Linked

1991 High	1991 Low	Stock	(b)	Price £	+ or -	(1)	(2)
120¼	115¼	Do 2'94	(102.9)	120	-¼	3.06	4.04
172½	168½	Do. 2pc '96	(67.9)	172½xd	+¼	3.69	4.24
142¾	137¼	Do 2½pc '01	(78.3)	142¾xd	+¼	3.95	4.26
138¼	133	Do 2½pc '03	(78.8)	138¼	+¼	4.01	4.28
140¼	135	Do. 2pc '06	(69.5)	139¾	+¼	4.13	4.34
128½	124¼	Do. 2½pc '09	(78.8)	127¾	+¼	4.15	4.35
132½	128¼	Do. 2½pc '11	(74.6)	131½	+¼	4.16	4.34
109¼	105¼	Do. 2½pc '13	(89.2)	108¼	+¼	4.18	4.34
117½	113½	Do 2½pc '16	(81.6)	114½	+¼	4.18	4.34
113½	109½	Do. 2½pc '20	(83.0)	110½	+¼	4.17	4.32
95¼	91¼	Do. 2½pc '24‡‡	(97.7)	91¼	+¼	4.14	4.27

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for December 1990: 129.9 and for July 1991: 133.8

INT. BANK AND O'SEAS

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
104¼	95¾	African Dv Bk 11¼ Ln 2010	103¾	.....	10.71	10.62
99½	91¾	Asian Dev Bk 10¼pcLn2009	99¼	-¼	10.34	10.36
113¼	105½	Int-Am Dev Bk 12½pc 2003	112½	-¼	11.09	10.54
93½	86¾	Do 9¼pcLn 2015	93¾	+¼	10.43	10.50
124	101	Utd. Mexican States 16½pc 2008	123¼	+¼	13.33	12.99

CORPORATION LOANS

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
103½	100½	Birmingham 11½pc 2012	102½	.....	11.22	11.20
97½	93½	GLC 6¾pc 1990-92	97½	.....	6.92	11.05
115½	110½	Leeds 13½pc 2006	114½	.....	11.79	11.40
30	28	Liverpool 3½pc Irred.	30	.....	11.67	-
27	26	LCC 3pc '20 Aft.	26	.....	11.54	-
103½	97½	Manchester 11½pc 2007	102½	.....	11.22	11.15

COMMONWEALTH & AFRICAN LOANS

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
90	84½	Sth Rhod. 87-92 Asstd	90	.....	-	-

LOANS

Building Societies

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
104½	102	N'wide Anglia 3½pc Ln 2021	103½	+½	-	5.49
107	104	Do. 4.25pcIL '24	105¼	+¼	-	5.12

Public Board and Ind.

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
53	52	Met. Wtr. 3pc 'B'	52	.....	5.77	9.70

FOREIGN BONDS & RAILS

1991 High	1991 Low	Stock	Price £	+ or -	Div % Gross	Red. Yield
50	50	Greek 7pc Ass.	50	.....	3.50	7.00
50	50	Do. 6pc 28 Stb Ass.	50	.....	3	16.00
50	50	Do 4pc Mixed Ass	50	.....	2	14.00
55	55	Hung. '24 Ass	55	.....	2.75	13.57
129½	120½	Hydro Quebec 15pc 2011	129½	+½	12.89	11.23

Continued on next page

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AMERICANS

CANADIANS

For Varity see Americans

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ELECTRICITY

For Scottish Hydro-Electric see EQUITIES under LONDON RECENT ISSUES

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

MOTORS AIRCRAFT TRADES

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRANSPORT—Contd

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie as a guide only.

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

1991 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's
£11¼	£7¾	Homestake Mining $1	£8⅞	-⅛	Q20c	-	1.3
61	30	Sherwin West.......y	55	.....	-	-	-
46	35	Keith Mins. Ir5p...y	35	.....	-	-	-
25	9	Kenmare ....y	11¼	.....	-	-	-
18	15	Navan Resources....y	18	.....	-	-	-
99	52	Northgate Expl C$1	68	.....	-	-	-
16	6	North West Expl ...	7	.....	-	-	-
188	82	Oryx Gold Hldgs.......	138	.....	-	-	-
23	11	Ovoca Gold IR 2p...y	13	.....	-	-	-
44	18	Plateau Mining 20p...β	19	.....	-	-	-
600	404	RTZ 10p. ....α	509	.....	19.5	2.2	4.4
11	3¼	Thorco Res. Inc.§	10½	.....	-	-	-
10	4	Vizcaya Hldgs 5p...β	4	.....	-	-	-
133	118	Young Group 10p...β	124	.....	5.2	1.7	5.7

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares.
γ Gamma refers to other traded instruments.
Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.
Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1...β	640	.....
Finlay Pkg. 5p....β	19	.....
Holt (Jos) 25p....β	1975	.....
Helton Hldgs.......y	43	.....
IRG..................	138	.....
United Drug..........	171	.....

IRISH

Cap. 8½% Ln. 2010...	£94	+¼
9pc Cap Ln. 1996...	£98⅛	-⅛
Fin. 13% 97/02...	£112½	.....
Arnotts..............	175	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	60
BOC Grp	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons.	45
Comm Union	44
Courtaulds	32
Eurotunnel	50
FKI	6
FNFC	20
Gen Accident	48
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd	39
ICI	80
Ladbroke	22
Legal & Gen	36
Lex Service	28
Lloyds Bank	38
Lucas Inds	13
Marks & Spencer	21
Midland Bk	18
Nat West Bk	27
P & O Dfd	51
Racal Elect	18
RHM	28
Rank Org Ord	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	40

Property

Brit Land	30
Control Secs	3
Land Securities	45
MEPC	40
Mountleigh	8½

Oils

Aviva Petlm	3
Brit Petroleum	28
Burmah Castrol	49
Conroy Petlm	10
Gaelic Res	1
Premier	6
Shell	41
Tuskar Res	2
Ultramar	30

Mines

Lonrho	21
RTZ	48

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
Gilts & Fixed Int	6	115.2	115.2	122.1	+0.1	9.42
High Inc Equity	6	136.0	139.5xd	148.4	-0.3	5.73
Worldwide Bond	6	208.1	208.1xd	220.6	+0.4	6.80
Capital Growth						
American Growth	6	213.4	213.4	227.9	+1.0	.96
Asian Pacific	6	124.2	126.8	134.8	-0.7	1.16
Assets & Earnings	6	181.7	185.6	197.4	-0.9	2.93
Capital Reserve Acc	0	107.3	107.3	107.4	+0.2	7.07
Capital Reserve Inc	0	84.85	84.85	84.88	+0.14	7.07
Comdty & Energy	6	75.47	75.47	80.71	+0.14	1.85
1992 Enterprise	6	64.56	64.56	69.04	-0.07	2.80
Euro Capital Acc	6	88.90	88.90	95.08	-0.28	1.42
Euro Capital Inc	6	84.93	84.93	90.83	-0.29	1.43
General	6	172.7	172.7xd	184.7	-0.6	2.71
Japan	6	90.02	90.02	96.27	-0.31	-
Mastertrust	6	89.48	89.48	95.70	-0.38	2.13
UK Growth Acc	6	162.3	162.3	173.5	+0.2	2.61
UK Growth Dist	6	104.3	104.3	111.5	+0.1	2.63
US Emerging Cos	6	71.40	71.40	76.36	-0.33	-
Income & Growth	6	309.5	309.5	331.0	-1.0	4.25
Ethical	6	51.69	51.69	55.28	+0.10	3.06
International	6	61.95	62.68	66.68	-0.05	1.32
Dividend & Growth	6	50.01	51.24xd	54.51	-0.05	5.50
Global Gwth & Sec	6	51.44	51.72	55.02	-0.14	1.82
Aberforth Unit Trust Managers Ltd (1600)F						
16 Chester St, Edinburgh EH3 7RA 031 220 0733						
UK Small Cos	0	1004.0	1004.0	1056.0		0
Abtrust Unit Trust Managers Ltd (1200)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580						
Amer Inc & Growth	5¼	31.84	31.84	33.87	+0.06	2.35
Cash	0	51.00	51.00	51.00	+0.01	10.41
European	5¼	71.24	71.24	75.59	+0.32	0.30
European Income	5¼	73.59	74.01xd	78.08	-0.39	1.57

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may *not be the current dealing levels because of an* intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes *that the managers deal at the price to be set on the* next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: *The most recent report and scheme* particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the *FT Managed Funds Service*.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

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Baring International Fd Mngrs (Ireland) Ltd	Bid Price	Offer Price	+ or -	Yield Gross
Australia	$15.80	15.99	-0.02	1.05
Japan Tech	$57.87	59.93	-0.15	-
Japan Fund	$22.77	24.96	-	0.17
Japan New Gen Fd	$18.52	19.45	-0.02	-
Malay Sing	$51.45	54.08	+0.21	0.32
Nth American	$22.15	23.24	-0.01	0.58
October Fund	$21.80	27.05	+0.03	0.88
Pacific Fd	$59.71	62.76	+0.07	-
International Bond	$16.51	17.34	-	6.89
Europa Fund	$12.87	13.52	+0.10	-
Bridge Screen Fd	£0.92	0.97	-	-
TriStar Warrant	$10.18	10.69	-0.01	-
Hong Kong	$48.72	51.16	-0.05	3.09
Magd Portfolio (Stlg)	£4.24	4.37	+0.02	-
Magd Portfolio (Dlr)	$10.16	10.71	+0.01	-
Currency Fd-Sterling	£19.27		-	-
Currency Fd-US Dollar	$15.26		-	-
Curr Fd-Deutschemark	DM40.19		+0.02	-
Curr Fd-Managed $	$45.39	45.35	+0.11	-

Federated International Funds Plc

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar down on GNP fall

THE DOLLAR'S decline yesterday was based on economic considerations, as attention swung away from events in the Soviet Union.

It followed news that US gross national product contracted by 0.1 per cent during the second quarter, revising last month's preliminary estimate of 0.4 per cent growth. This was the third consecutive quarter that the economy shrank since the recession began in the middle of 1990.

Disappointment that the economy was still in recession at mid-year renewed speculation about lower US interest rates, despite comments by Mr John Laware, a Federal Reserve Board governor. He said recently that a cut in the US discount rate is not necessary and will not speed up economic recovery.

To some extent this view was support by indications in the GNP data that the economy is poised to recover. This included a downward revision of $27.7bn in business inventories from the preliminary fall of $21.2bn. Economists noted that the lower the level of inventories the quicker the economy is likely to rebound.

In the Far East the dollar had been strong, testing resistance at DM1.7600, but at the London close it had fallen to DM1.7400, from DM1.7485 on Tuesday. The US currency also fell to Y136.65 from Y136.95; to SFr1.5175 from SFr1.5225; and to FFr5.9050 from FFr5.9375. On Bank of England figures the dollar's index slipped to 66.4 from 66.7.

The German Bundesbank council meets today, but is not expected to change credit policies after increasing official interest rates at the last meeting two weeks ago. The last increase was a reaction to rising inflation, but provisional figures released yesterday showed that year-on-year inflation in the western part of Germany slowed to 4.1 per cent in August from 4.4 per cent in July.

There was little impact on the D-Mark, which remained in the middle of the European exchange rate mechanism, and was steady against the Japanese yen. It closed at Y78.55 in London, compared with 78.30 on Tuesday, recovering from levels of around Y78.00 in early European trading.

Sterling improved against the weak dollar and was generally firm against its partners in the ERM, but did not have any obvious direction of its own. Domestic political events have not yet had any impact on the pound, but are expected to become a factor when the UK political party conferences take place in the latter part of September and early October.

Sterling rose 95 points to $1.6900. It also improved to DM2.9400 from DM2.9375; to FFr9.9800 from FFr9.9775; to SFr2.5650 from SFr2.5575; and to Y231.00 from Y230.25. The pound's index climbed 0.1 to 90.8.

The Spanish peseta gained ground at the top of the ERM, despite lower interest rates in Madrid on speculation about further monetary easing by the Bank of Spain.

£ IN NEW YORK

Aug 28	Latest	Previous Close
£ Spot	1.6900-1.6910	1.6800-1.6810
1 month	0.75-0.74pm	0.78-0.77pm
3 months	2.11-2.08pm	2.12-2.09pm
12 months	6.92-6.82pm	6.90-6.80pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Aug.28	Previous
8.30 am	90.6	90.6
9.00 am	90.6	90.7
10.00 am	90.7	90.6
11.00 am	90.7	90.6
Noon	90.7	90.6
1.00 pm	90.6	90.6
2.00 pm	90.8	90.6
3.00 pm	90.9	90.6
4.00 pm	90.8	90.7

CURRENCY MOVEMENTS

Aug 28	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.8	-21.3
U S Dollar	66.4	-12.1
Canadian Dollar	106.4	+3.6
Austrian Schilling	108.7	+11.2
Belgian Franc	110.3	-2.7
Danish Krone	107.8	+2.5
D-Mark	116.4	+23.3
Swiss Franc	109.0	+17.9
Dutch Guilder	112.9	+15.1
French Franc	101.9	-13.7
Lira	98.1	-20.1
Yen	138.2	+69.8

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Aug.27

CURRENCY RATES

Aug 28	Bank ‡ rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.794736	0.698299
U S Dollar	5.50	1.33317	1.16965
Canadian $	8.84	1.52208	1.33469
Austrian Sch	7.50	16.4233	14.4592
Belgian Franc	8.00	48.0075	42.2565
Danish Krone	9.50	9.00823	7.92555
D-Mark	7.50	2.33505	2.05508
Dutch Guilder	8.00	2.62994	2.31462
French Franc	10¼	7.92903	6.97229
Italian Lira	11½	1742.45	1532.53
Japanese Yen	5.50	182.538	160.324
Norway Krone	8	9.11355	8.02193
Spanish Peseta	-	145.436	127.764
Swedish Krona	10.00	8.46163	7.45184
Swiss Franc	7.00	2.03442	1.78781
Greek Drach	19	N/A	226.982
Irish Punt	-	N/A	0.768294

‡ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Aug.27

OTHER CURRENCIES

Aug 28	£	$
Argentina	16804.0 - 16820.9	9955.00 - 9965.00
Australia	2.1480 - 2.1500	1.2740 - 1.2745
Brazil	652.810 - 653.910	387.200 - 387.500
Finland	7.1695 - 7.1910	4.2550 - 4.2580
Greece	321.650 - 328.100	192.210 - 196.050
Hong Kong	13.0895 - 13.1025	7.7605 - 7.7625
Iran	113.10*	68.70*
Korea(Sth)	1217.95 - 1237.60	730.10 - 735.90
Kuwait	0.48000 - 0.48020	0.29460 - 0.29470
Luxembourg	60.55 - 60.65	35.80 - 35.90
Malaysia	4.7070 - 4.7150	2.7840 - 2.7860
Mexico	5138.90 - 5145.20	3048.00 - 3049.00
N.Zealand	2.9415 - 2.9455	1.7395 - 1.7420
Saudi Ar	6.2380 - 6.3150	3.7500 - 3.7510
Singapore	2.9080 - 2.9150	1.7210 - 1.7230
S.Af (Cm)	4.8485 - 4.8595	2.8640 - 2.8670
S.Af (Fn)	5.3680 - 5.4550	3.1745 - 3.2260
Taiwan	45.05 - 45.15	26.65 - 26.70
U.A.E.	6.1075 - 6.1845	3.6715 - 3.6735

* Selling rate.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Aug 28	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	127.764	-4.39	5.76	76
Italian Lira	1538.24	1532.53	-0.37	1.50	25
Belgian Franc	42.4032	42.2565	-0.35	1.47	23
Dutch Guilder	2.31643	2.31462	-0.08	1.20	10
D-Mark	2.05586	2.05508	-0.04	1.16	11
Irish Punt	0.767417	0.768294	0.11	1.00	1
Sterling	0.696904	0.698299	0.20	0.92	-5
Danish Krone	7.84195	7.92555	1.07	0.05	-43
French Franc	6.89509	6.97229	1.12	0.00	-54

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Aug 28	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6725 - 1.6915	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	1.9095 - 1.9280	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	3.3075 - 3.3175	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	60.30 - 60.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	11.3315 - 11.3650	11.3550 - 11.3650	1½-1⅛orepm	1.39	3⅞-2⅝pm	1.04
Ireland	1.0990 - 1.1025	1.0995 - 1.1005	0.13-0.08cpm	1.15	0.23-0.13pm	0.65
Germany	2.9375 - 2.9455	2.9375 - 2.9425	½-¼pfpm	1.79	1¼-1pm	N/A
Portugal	250.50 - 252.55	251.55 - 252.55	63-134cdis	-4.69	216-304dis	-3.86
Spain	182.50 - 183.45	182.80 - 183.10	12-23cdis	-1.15	70-86dis	-1.74
Italy	2190.25 - 2198.05	2193.00 - 2194.00	par-2liredis	-0.55	4-6dis	-0.82
Norway	11.4715 - 11.5160	11.4900 - 11.5000	1¼-⅞orepm	1.11	1⅞-1⅜pm	0.59
France	9.9725 - 9.9915	9.9750 - 9.9850	1⅜-1⅛cpm	1.50	3¼-2⅞pm	1.23
Sweden	10.6545 - 10.6910	10.6750 - 10.6850	⅜-⅛orepm	0.49	⅛-⅜dis	-0.12
Japan	229.25 - 231.50	230.50 - 231.50	⅞-⅝ypm	3.57	2⅛-1⅞pm	3.37
Austria	20.66 - 20.72	20.66 - 20.69	3⅛-2⅝gropm	1.85	8-5⅝pm	1.18
Switzerland	2.5565 - 2.5700	2.5600 - 2.5700	⅞-½cpm	2.92	1⅞-1½pm	2.64
Ecu	1.4295 - 1.4345	1.4330 - 1.4340	0.17-0.11cpm	1.17	0.37-0.27pm	0.89

Commercial rates taken towards the end of London trading. Six-month forward dollar 3.81-3.76cpm. 12 Month 6.86-6.76cpm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Aug 28	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6725 - 1.6915	1.6895 - 1.6905	0.76-0.74cpm	5.33	2.10-2.07pm	4.93
Ireland†	1.5210 - 1.5355	1.5345 - 1.5355	0.52-0.47cpm	3.87	1.58-1.48pm	3.99
Canada	1.1400 - 1.1420	1.1405 - 1.1415	0.26-0.29cdis	-2.89	0.77-0.82dis	-2.79
Netherlands	1.9580 - 1.9890	1.9600 - 1.9610	0.58-0.61cdis	-3.64	1.77-1.82dis	-3.66
Belgium	35.75 - 36.20	35.80 - 35.90	10.00-11.00cdis	-3.51	28.00-35.00dis	-3.51
Denmark	6.7170 - 6.7820	6.7200 - 6.7250	2.14-2.44oredis	-4.09	6.35-6.95dis	-3.96
Germany	1.7380 - 1.7595	1.7395 - 1.7405	0.51-0.52pfdis	-3.55	1.52-1.55dis	-3.53
Portugal	148.85 - 150.25	148.85 - 148.95	115-125cdis	-9.67	340-360dis	-9.40
Spain	108.25 - 109.45	108.35 - 108.45	61-65cdis	-6.97	177-187dis	-6.72
Italy	1297.00 - 1312.00	1297.75 - 1298.25	6.30-6.80liredis	-6.06	18.30-19.30dis	-5.79
Norway	6.7930 - 6.8690	6.8000 - 6.8050	2.30-2.60oredis	-4.32	7.35-7.85dis	-4.47
France	5.8975 - 5.9700	5.9025 - 5.9075	1.81-1.86cdis	-3.73	5.45-5.55dis	-3.73
Sweden	6.3085 - 6.3785	6.3175 - 6.3225	2.35-2.60oredis	-4.70	7.50-7.95dis	-4.89
Japan	136.50 - 137.10	136.60 - 136.70	0.19-0.21ydis	-1.76	0.52-0.54dis	-1.55
Austria	12.2500 - 12.3800	12.2500 - 12.2550	2.50-5.00grodis	-3.67	8.50-13.50dis	-3.59
Switzerland	1.5145 - 1.5300	1.5170 - 1.5180	0.29-0.32cdis	-2.41	0.84-0.89dis	-2.28
Ecu	1.1680 - 1.1810	1.1800 - 1.1810	0.42-0.39cpm	4.12	1.22-1.16pm	4.03

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Aug 28	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11⅛ - 11	11 1/16 - 11	11 - 10 15/16	10⅞ - 10¾	10 13/16 - 10⅝	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	12 - 10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	6 - 5⅞	6 - 5⅞	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 6⅞-6¾ per cent; three years 7⅛-7 per cent; four years 7⅜-7¼ per cent; five years 8-7⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Aug.28	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.690	2.940	231.0	9.980	2.565	3.313	2194.	1.926	60.60	1.434
$	0.592	1	1.740	136.7	5.905	1.518	1.960	1298	1.140	35.86	0.849
DM	0.340	0.575	1	78.57	3.395	0.872	1.127	746.3	0.655	20.61	0.488
YEN	4.329	7.316	12.73	1000.	43.20	11.10	14.34	9498	8.338	262.3	6.208
F Fr.	1.002	1.693	2.946	231.5	10.	2.570	3.320	2198	1.930	60.72	1.437
S Fr.	0.390	0.659	1.146	90.06	3.891	1	1.291	855.4	0.751	23.63	0.559
H Fl.	0.302	0.510	0.887	69.73	3.012	0.774	1	662.2	0.581	18.29	0.433
Lira	0.456	0.770	1.340	105.3	4.549	1.169	1.510	1000.	0.878	27.62	0.654
C$	0.519	0.877	1.526	119.9	5.182	1.332	1.720	1139	1	31.46	0.745
B Fr.	1.650	2.789	4.851	381.2	16.47	4.233	5.467	3620	3.178	100.	2.366
ECU	0.697	1.179	2.050	161.1	6.960	1.789	2.310	1530	1.343	42.26	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100% — [illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100% — [illegible]

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100% — [illegible]

LIFFE EUROMARK OPTIONS DM1m points of 100% — [illegible]

LIFFE EURODOLLAR OPTIONS US$1m points of 100% — [illegible]

LIFFE SHORT STERLING OPTIONS £500,000 points of 100% — [illegible]

LONDON (LIFFE) — [illegible]

CHICAGO — [illegible]

PARIS — [illegible]

THREE-MONTH PIBOR FUTURES (MATIF) (Paris interbank offered rate)

September	90.57	90.59	+0.03	90.60	90.56	9.44	19,008
December	90.69	90.71	+0.03	90.71	90.69	9.32	24,561
March	90.83	90.86	+0.04	90.87	90.83	9.18	5,727
June	-	90.92	+0.04	-	-	9.12	1,200

Estimated volume 8,227 Total Open Interest 50,496

CAC-40 FUTURES (MATIF) Stock index

August	1850.0	1851.5	+2.0	1860.0	1848.0	-	6,951
September	1863.5	1866.5	+2.5	1874.5	1862.0	-	8,178
October	1876.5	1880.0	+2.0	1876.5	1876.5	-	797
December	1913.5	1908.5	+4.5	1916.0	1913.5	-	1,029

Estimated volume 13,579 Total Open Interest 16,955

ECU BOND (MATIF)

September	105.30	105.44	+0.32	105.44	105.20	9.20	2,804
December	105.42	105.48	+0.34	105.42	105.42	9.19	73

Estimated volume 1,126 Total Open Interest 2,877

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls September	Calls December	Calls March	Puts September	Puts December	Puts March
102	-	-	-	-	0.08	-
103	-	-	-	-	0.14	-
104	2.00	-	-	-	0.27	0.69
105	1.00	1.61	-	0.01	0.50	-
106	0.13	1.02	1.39	0.18	0.91	1.41
107	-	0.58	-	-	-	-
Open Int.	116,503	82,681	27,073	95,258	55,381	28,650

Estimated volume 28,463 Total Open Interest 410,946

POUND - DOLLAR — [illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	11	Co-operative Bank	11	McDonnell Douglas Bnk	11
Allied Trust Bank	11	Coutts & Co	11	Midland Bank	11
AIB Bank	11	Cyprus Popular Bk	11	Mount Banking	11
● Henry Ansbacher	11	Dunbar Bank PLC	11	NatWestminster	11
B & C Merchant Bank	11	Duncan Lawrie	11	Northern Bank Ltd	11
Bank of Baroda	11	Equatorial Bank plc	11	Nykredit Mortgage Bank	12
Banco Bilbao Vizcaya	11	Exeter Bank Limited	11½	Provincial Bank PLC	14
Bank of Cyprus	11	Financial & Gen. Bank	11.5	Roxburghe Bank Ltd.	12
Bank of Ireland	11	First National Bank Plc.	14	Royal Bk of Scotland	11
Bank of India	11	● Robert Fleming & Co.	11	● Smith & Williamson Secs.	11
Bank of Scotland	11	Robert Fraser & Ptnrs.	11½	Standard Chartered	11
Banque Belge Ltd	11	Girobank	11	TSB	11
Barclays Bank	11	● Guinness Mahon	11	Unibank plc	11
Benchmark Bank	11	● Hambros Bank	11	● United Bk of Kuwait	11
Brit Bk of Mid East	11	Hampshire Trust Plc	13.5	Unity Trust Bank Plc	11
● Brown Shipley	11	Heritable & Gen Inv Bnk	11	Western Trust	11
CL Bank Nederland	11	● Hill Samuel	11	Westpac Bank Corp.	11
Citibank NA	11	C. Hoare & Co.	11	Whiteaway Laidlaw	11
City Merchants Bank	11	Hongkong & Shanghai	11	Yorkshire Bank	11
Clydesdale Bank	11	● Leopold Joseph & Sons	11		
Comm.Bk.of London Plc	11	Lloyds Bank	11		
		Meghraj Bank Ltd	11		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Rates little changed

LACK OF economic news, and expectations that UK bank base rates will remain at the present level for some time, kept wholesale rates steady in London yesterday.

Three-month sterling interbank was unchanged at 10⅞-10¾ per cent and 12-month money was steady at 10 13/16-10⅝ per cent.

Trading remained subdued in short sterling futures on Liffe. September delivery rose to 4 basis points to 89.33, while December gained 7 points to 89.86, reflecting greater confidence of base rate cuts by delivery of the far contract.

Day-to-day credit was in very short supply on the cash market and for the second day running the authorities took out most of this with very large early assistance. This took upward pressure off overnight money, improving the trading conditions of market operators, and indicating that the Bank of England does not see any immediate danger of a move to lower the rate structure.

A shortage of £1,150m was initially forecast, but this was revised to £1,350m at noon. Help of £1,220m was provided.

In early operations the authorities bought £1,050m bills, including £250m bank bills outright in band 1 at 10⅞ per cent. Another £800m bills were purchased for resale to the market in equal amounts on September 11 and 12 at an interest rate of 10 11/16 per cent. A further £100m bank bills were bought outright before lunch, in band 1 at 10⅞ per cent.

In the afternoon £70m bills were purchased outright, by way of £23m Treasury bills in band 1 at 10⅞ per cent and £47m bank bills in band 1 at 10⅞ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £641m, with the unwinding of repurchase agreements on bills absorbing £1,190m and bank balances below target £70m. These outweighed exchequer transactions adding £710m to liquidity and a fall in the note circulation of £50m.

In Frankfurt the German Bundesbank added liquidity to the money market as call money rose towards the 9.25 per cent Lombard rate. The call rate stabilised at around 9.20 per cent, against 8.90 per cent on Tuesday, after the central bank added funds under section 17 of the Bundesbank act. This is money held on behalf of public authorities that can be made available to the market on a short term basis.

UK clearing bank base lending rate 11 per cent from July 12, 1991

FT LONDON INTERBANK FIXING

(11.00 a.m. Aug.28) 3 months US dollars — 6 months US Dollars — [illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds — [illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds — [illegible]

Money Market Bank Accounts — [illegible]

LEGAL NOTICES

PHILIPP BROTHERS LIMITED

(Registered No. 588144)

NOTICE is hereby given in accordance with s.175 of the Companies Act 1985 that the above named company ("the Company") has approved a payment out of capital for the purpose of acquiring by purchase 179,000,000 of its own Ordinary Shares of $1 each. The amount of the permissible capital payment for the shares in question is $44,750,000.

The date of the resolution approving payment out of capital is 23rd August 1991.

A statutory declaration and auditors' report required by s.173 of the Companies Act 1985 are available for inspection at the Company's registered office at Victoria Plaza, 111 Buckingham Palace Road, London SW1W OSL, and any creditor of the Company may at any time within the five weeks immediately following the date of the resolution for payment out of capital apply to the Court under s.176 of the Companies Act 1985 for an order prohibiting the payment.

G.C. HOWSDEN
Company Secretary

23 August 1991

COMPANY NOTICES

THE ROYAL BANK OF CANADA

U.S. $350,000,000 Floating Rate Debentures due 2005

In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 30th August, 1991 to 30th September, 1991 has been fixed at 5 13/16% per annum. On 30th September, 1991 interest of U.S. $5.005208 per U.S. $1,000 nominal amount of the Debentures will be due for payment. The rate of interest for the period commencing 30th September, 1991 will be determined on 26th September, 1991.

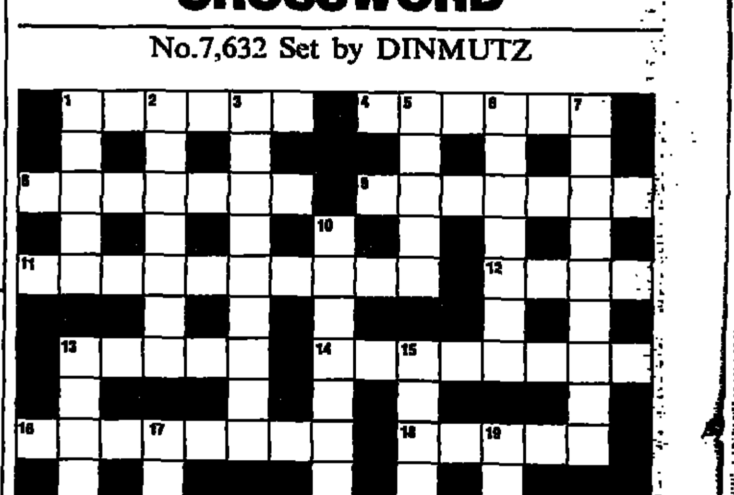
Agent Bank and Principal Paying Agent
ROYAL BANK OF CANADA EUROPE LIMITED

PERSONAL

JOTTER PAD

CROSSWORD

No.7,632 Set by DINMUTZ



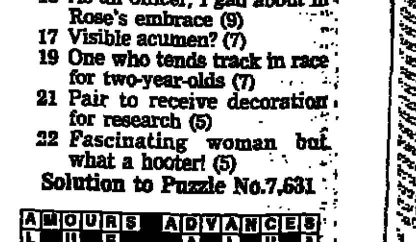
ACROSS

1 Characters on the staff who raise the tone (6)
4 Asiatic language derived from plain English? (6)
8 Name of place in which schoolboy Brown retained £25? (7)
9 Isn't Ted upset when he drills? (7)
11 Workshop for party speech-making (10)
12 I am black-foot of 5 dn (4)
13 Reversible canoe (5)
14 Brie, alas, is off for the satirist (8)
16 Playing sitar, attempt to show brilliance (8)
18 Architects' order – to be endlessly agreeable at No. 10 (5)
20 Dark blue water? (4)
21 These sheets are always terribly cold (10)
23 Late dance or ball (4,3)
24 Anger in acreage of Winchester, for example (7)
25 Book Three's revised (6)
26 Credit always available for a writer (6)

DOWN

1 A most unusual opening (5)
2 Mockery of a defence (7)
3 In which bread, these days, is wrapped? (3-6)
5 Keen to have churchyard work (5)
6 Building society's deposit? (7)
7 In masonic order, he is kept alert (9)
10 Go steady with policemen in enclosed ground (9)
13 Moderates language, we hear, at pavement-edge (9)
15 As an officer, I gad about in Rose's embrace (9)
17 Visible acumen? (7)
19 One who tends track in race for two-year-olds (7)
21 Pair to receive decoration for research (5)
22 Fascinating woman but what a hooter! (5)

Solution to Puzzle No.7,631



WORLD STOCK MARKETS

CANADA

TORONTO

3:15 pm prices August 28

MONTREAL

3:00 pm prices August 28

INDICES

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

*Saturday August 24: Taiwan Weighted Price 4426.14 Korea Comp Ex. 697.74
Δ Subject to official recalculation. *Calculated at 15.00 GMT
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 25 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday, 28 August, 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Chiba Bank	6.0m	1,090	-10	Mitsui Shipbldg	4.9m	523	-7
Kobe Steel	5.9m	441	-12	Nippon Steel	4.4m	390	+2
Showa Shell Sek.	5.7m	1,860	+80	Ashikaga Bank	4.0m	1,170	-20
Joyo Bank	5.4m	908	-8	Cosmo Oil	3.9m	782	+17
Shizuoka Bank	5.3m	1,380	-10	Nippon Carbon	3.8m	1,190	+60

Price data supplied by Telekurs.

3:15 pm prices August 28

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

US and Canada prices: Owing to technical problems, the day's changes shown in the edition of Tuesday August 27 were incorrect.

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16¾	9¼	AAR Corp	0.48	0.03	17	462	16	15¾	15⅞	-¼
18¾	14½	A L Labs A	0.16	0.01	17	335	15¾	15½	15⅝	
55¾	40⅞	AMP Inc	1 44	0.03	20	903	53½	53	53½	+¼
68½	44¼	AMR			11	1969	59⅞	58⅞	59⅞	+¼
2⅝	1¼	ARX			1	138	1¼	d1¼	1¼	
56	41½	ASA x	3 50	0 08	13	353	46⅜	45¾	46	-¼
55¼	39¼	Abbott Lab	1 00	0 02	23	3081	54⅞	54¼	54¾	+½
14½	9⅞	Abitibi Pr	0.50	0.03	28	2	14½	14½	14½	
11⅝	10⅜	ACM Gvt In	1.28	0.11		309	11⅛	11⅛	11⅛	
9¾	8¾	ACM GvOpp	1 01	0.11		33	9½	9⅜	9½	
9¼	8¾	ACM Gvt Sp	1 01	0.11		220	u9¼	9⅛	9¼	
11	9⅞	ACM Gvt Se	1.26	0 12		478	10⅝	10½	10⅝	+⅛
8⅝	7⅜	ACM Man	1 01	0.12		164	8½	8⅜	8⅜	-⅛
12⅞	11½	ACM Managd	1 37	0 11		175	12⅜	12¼	12⅜	
7½	4¾	Acme Cleve	0 40	0 06	17	51	6½	6⅜	6½	+⅛
6	3⅞	Acme Elect			2	145	4¼	3⅞	4¼	+¼
40	22¼	Acuson			22	717	33⅛	32¼	33	+½
18¾	14¼	Adams Expr	0.73	0.04	0	77	u18¾	18½	18⅝	
20½	17½	Adobe12PF	2.40	0 14		83	17⅞	17¾	17¾	
9¾	6⅝	Adobe Res			48	55	7⅛	7	7	
38⅛	18	Ad Micro				70	36⅞	36⅜	36⅞	+½
14¼	4⅝	Ad Micro P	3.00	0.25	19	5272	12⅜	11½	12⅛	+⅝
5⅛	2¼	Advest Grp	0.16	0.04	5	108	3⅝	3½	3⅝	
49½	33⅞	Aetna Lf	2.76	0 08	7	4296	35⅛	34¼	34½	-⅜
10⅝	6⅝	Affil A	0.24	0.03	48	687	8⅞	8⅝	8¾	-⅛
20⅞	12	Ahmanson	0.88	0.05	11	1313	19⅜	18⅞	19⅜	+⅝
13¼	2⅞	Aileen Inc			16	271	12¾	12	12½	-¼
74⅛	51⅛	Air Pr Chm	1.56	0 02	15	456	69½	68¼	68½	-⅛
30	16⅝	Aubne Frt x	0.30	0 01	18	455	27½	27	27½	-¼
[illegible]										

1991 High	Low	Stock	Div.
30	22⅞	BRE Prop x	2 40
39⅛	24⅝	Briggs & S x	1 60
48	36⅝	Brinkerint	
87½	61¼	Bristol M	2 40
33¾	24½	Brit Airwy	1.78
49⅞	39	Brit Gas	2.50
77½	63⅞	BP ADR x	4.36
32⅞	26⅝	BP Prudhoe	3.34
8⅞	3½	BP Wts93	
27⅝	19¾	Brit Steel	1.81
68	51¼	Brit Tel	3.24
13⅞	4⅝	Broad Inc	0.20
30¼	27½	BrkInPld	2.47
29⅝	27	Brooklyn U	1.90
84½	72¼	BrwnFormB x	2.24
28⅜	21⅝	Brown Grp	1.60
12⅝	7⅞	Brown&Shrp	0.32
30¾	20⅜	Browning F	0.68
4⅜	2⅛	BRT	
16⅜	8⅝	Brunswick	0 44
20	14⅛	Brush Well	0.72
27½	23⅝	Buckeye Pt	2 80
15⅞	13	Bunker Hil	1.87
13¾	10¼	Burger K I	1.62
15⅛	8⅞	Burl Coat	
35¾	26¼	Burl North	1.20
43¼	32⅞	Burln Resc	0 70
16	11¼	Burnham Pc	1 38

[illegible]

- B - [illegible]

- C - [illegible]

- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

- H - [illegible]

- I - [illegible]

- J - [illegible]

- K - [illegible]

- L - [illegible]

- M - [illegible]

- N - [illegible]

- O - [illegible]

- P - Q - [illegible]

- R - [illegible]

- S - [illegible]

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
21⅞	14⅞	Xtra 1.94				86	u21⅞	21	21	-⅛
24⅞	14¼	Xtra Corp	0.72	0.03	77	39	23⅝	23⅛	23⅜	-¼
24¼	21⅞	Yankee Egy x	1.60	0.07	11	65	24⅛	23¾	24⅛	+⅛
1½	⅞	Zapata			3	467	[illegible]	[illegible]	[illegible]	+⅛
9⅝	6½	ZenithElec			1	663	5¾	d5½	5¾	+⅛
16½	12	Zenith Nat	1.00	0.06	97	5	16⅝	16⅝	16⅝	-⅛
6¼	4½	Zenit Inc x	0.84	0.14		37	6	5⅞	6	
16⅛	10⅞	Zero Corp	0.40	0.03	17	116	15	14⅝	14⅞	+⅛
41⅛	29½	Zurn Ind	0.88	0.02	15	129	38¼	38	38¼	+¼
13½	10¼	Zweig Fund	1.12	0.09		245	12⅝	12⅜	12½	
10	8½	Zweig Totl	0.96	0.10		650	u10	9⅞	10	

Price data supplied by Telekurs

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:15 pm prices August 28

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Oilt Corp	0.14	13	64	9⅜	9¼	9¼	-⅛
Pall Corp	0.44	30	608	u40¼	39⅞	40¼	+⅜
Pegasus G		7	91	11½	11¼	11¼	-¼
Perini		7	23	11⅛	11	11	-⅛
Pet HI&P	0.31	12	5	10⅛	10⅛	10⅛	-⅛
Phil LD	3.20	8	857	u22½	22⅛	22¼	-⅛
Pitway A	0.70	10	14	23¾	23½	23½	-¼

NASDAQ NATIONAL MARKET

3:15 pm prices August 28

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		35	1622	28¼	27¾	28¼	
XL Data		37	1025	u12½	12	12½	+⅜
Xoma Corp		10	9194	20	19¼	19½	+¼
Yellow Fr	0.94	16	1078	32⅞	31	31½	-1⅛
York Rsch		45	613	5⅞	5½	5½	-⅜
ZionsUtah	1.44	10	48	u50	48¾	48¾	-¼

FINANCIAL TIMES

Thursday August 29 1991

AMERICA

Dow tests all-time high on interest rate hopes

Wall Street

SPORADIC BUYING helped share prices to test their record closing highs yesterday morning, after an unexpected downward revision to second quarter gross national product figures raised hopes of an interest rate cut, *writes Patrick Harverson in New York.*

By 1 pm the Dow Jones Industrial Average was up 16.55 at 3,042.71, just above Friday's record closing high of 3,040.25. The more broadly-based Standard & Poor's 500 was also firmer, up 1.56 at 394.62 at 1 pm. The Nasdaq composite of over-the-counter stocks outperformed leading indices, rising 2.80 to 524.55. Turnover on the NYSE remained light, with 96m shares traded by 1 pm. Rises outpaced declines by 825 to 577.

In spite of yesterday's gains, analysts expect the market to stay in a narrow trading corridor between 3,000 and 3,050 until the August employment figures are released a week this Friday. Investors remain confident that the Federal Reserve will cut interest rates soon to stimulate the economy further. Yesterday's revision of the July GNP figure, reduced from an original estimated 0.4 per cent rise to a 0.1 per cent decline, confirmed that the economy's revival from recession is proving to be slower than than expected.

Among individual issues, Bolar Pharmaceutical soared $2½ to $6 on the American Stock Exchange after the company agreed to a $40m settlement regarding a lawsuit brought by Smithkline Beecham over Bolar's manufacture of a generic version of its drug, Dyazide. The news sent Smithkline ADRs up $1⅞ to $66⅞.

Elsewhere in the sector Schering-Plough put on $⅞ at $58 after the US Patent and Trade Office issued the company a product patent for human inter-lenkin-4, a naturally-occuring protein which may be effective in stimulating the body's immune system and helping in the treatment of tumours, leukemia and lymphomas.

Salomon held up well in the face of a downgrade of the group's senior debt by Moody's, the ratings agency. A lowering of Moody's ratings was expected, so by midsession yesterday Salomon shares were up $⅛ at $25⅞.

Stocks with links to Mexico continued to benefit from the improving Mexican economy. Latin American Investment Fund jumped $2⅛ to $28⅞ and Telefonos de Mexico, the communications giant, added $¾ at $37½.

Continental Bank slipped $½ to $13¾ after Keefe Bruyette & Woods, the broking house, cut its 1991 profit estimates for the bank because of concern that loan-loss provisions may have to be increased substantially for the third quarter.

On the over-the-counter market, Liposome rose $1 to $11 in heavy trading after an analyst at Hambrecht & Quist repeated his "buy" rating on the stock and favourable clinical trials of the company's anti-fungal drug were reported.

Furon fell $⅞ to $10⅝ on news that the manufacturer of industrial components earned only 2 cents a share during the second quarter, compared with 31 cents a share a year ago. The results were well below analysts' forecasts.

Canada

TORONTO was holding its ground at midday, but share prices were confined to a narrow range in featureless trading as the market waited for the quarterly results from the Canadian banks.

The TSE-300 index rose 2.36 to 3,520.2 on volume of 8.9m shares. Declines led advances by 217 to 175 with 228 unchanged. Among the advancing issues, Seagram rose C$1⅞ to C$114½ and SNC class A shares by C$1¼ to C$18½.

Deprenyl Research rose C$1 to C$25¼ on volume of over 184,000 shares after news that it had signed an agreement for world-wide rights to a new method of treating skin cancer.

SOUTH AFRICA

JOHANNESBURG made gains as investors trickled back after two days of slack trading. The all-share index put on 23 to 3,394, helped by a 22-point rise in the industrial index to 4,119. The all gold index improved by 19 to 1,127.

EUROPE

Continent digests crop of interim results

THE CONTINENT digested a crop of interim results yesterday, while Milan was brought to a virtual standstill by its latest trading scandal, *writes Our Markets Staff.*

MILAN eased in a very short session as this week's revelation of a stock fraud suggested that the settlement of the August account, due on Friday, would be postponed. Investors were reluctant to make new commitments because of the likely delay, which also posed foreign exchange problems for foreign investors wishing to settle their August transactions. The Comit index fell 2.3 to 548.62 in turnover estimated at less than Tuesday's small L52bn.

After the close, the two brokers who had deposited L85bn worth of stock with the Swiss-based bank which had been the victim of the fraud declared themselves insolvent after failing to deliver the stock by yesterday's deadline.

There were some bright spots in the market. Mr Francesco Ricciulli of Paribas in London said that he favoured stocks likely to benefit from the Italian government's decision to spend L30 trillion (million million) over the next 10 years on a high-speed train.

FT-SE Eurotrack 100 - Aug 28							
Hourly changes							
Open	10 am	11 am	Noon	1 pm	2 pm	3 pm	Close
1121.13	1121.73	1122.70	1122.25	1121.75	1121.16	1121.46	1121.03
Day's High 1123.04				Day's Low 1120.02			

Aug 27	Aug 23	Aug 22	Aug 21	Aug 20
1118.91	1112.34‡	1108.61	1100.53	1068.99

Base value 1000 (26/10/90) ‡ Corrected.

Ansaldo Trasporti, which is earmarked to receive contracts worth 10 per cent of the total investment, rose L110 or 2.3 per cent to L4,750.

The state-controlled cement manufacturer Cementir gained a further L111 to L2,611 on rumours that the state holding group IRI is planning an issue price of L3,000 when it privatises the rest of Cementir.

PARIS showed its vulnerability to rumour. The CAC 40 index ended up 2.16 at 1,851.83 in an optimistic session, buoyed up by signs from the futures market which suggested that the index could soon reach 1,900. Volume was estimated at FFr2.3bn after Tuesday's FFr1.7bn.

Euro Disney rose FFr2 to FFr138 on speculation that France might cut its uniform tax on redistributed profits. The construction group Spie-Batignolles put on FFr26 to FFr510 on rumours that its majority shareholder, Schneider, would sell all or part of its holding. Schneider denied the rumour.

The department store chain Printemps rose FFr15 to FFr882 on renewed talk that the Maus family would sell its controlling stake in the company because of troubles at its US operations.

Michelin closed FFr4.4 higher at a new high for 1991 of FFr122, on hopes that an economic recovery in the US would boost replacement tyre sales.

FRANKFURT hardly emerged from its shell, the DAX eventually ending the day just 0.38 higher at 1,674.50 38 after a rise of 0.27 to 685.70 in the FAZ at midsession. Volume in Frankfurt was down to DM2bn against DM2.3-2.4bn on Tuesday. Mr Hans-Peter Wodniok of James Capel said that it was reassuring that the indices had risen at all in spite of the low volume.

The chemical results season started with a slight decline in profits from Bayer, indicating a slight improvement in the month of June alone. The stock rose 40 pfg to DM277.70.

The diversified steel company Hoesch rose DM1.60 to DM281.80 in spite of a 65 per cent drop at the pre-tax level as rumours of a foreign bid resurfaced.

Meanwhile, the motor industry debate continued with Volkswagen rising DM4 to DM382, BMW flat and Porsche DM10 lower at DM745. Mr Wodniok said that the launch of VW's new Golf model has excited the market, with the Frankfurt car fair upcoming next month.

AMSTERDAM was uninspired by yesterday's interim results. The CBS Tendency index ended at 91.3, up just 0.1 in generally thin trading.

Aegon, the insurer, eased 20 cents to FFr117.70 on disappointment about its proposed 10 cent rise in the interim dividend. Buehrmann Tetterode recouped Fl 2.20 to Fl 46.40 after Tuesday's 3.9 per cent drop in anticipation of its poor interim results. The company said yesterday that net profits fell 16 per cent in the first half.

STOCKHOLM recovered from an early dip thanks to a strong result from Procordia. The Affärsvärlden index rose 2.3 to 1,083.5.

Procordia free B's closed SKr6 up at SKr207 after the company reported a rise of 25 per cent in first-half net profits. Astra free B's climbed SKr8 to SKr573 as analysts upgraded their full-year forecasts in the wake of Tuesday's interim.

Bucking the trend was Nobel, whose free B's lost SKr22 to SKr33 on the first day of trading since the stock was suspended last Thursday due to a crisis at its affiliated finance company, Gamlestaden. Volvo free B's eased SKr4 to SKr354 ahead of its interims, announced after the close.

ISTANBUL fell 3.4 per cent in thin trade as yesterday's one-year government bond auction set a higher benchmark for interest rates. The 75-share market index ended at 3,349.15, down 114.98.

DENMARK saw Sophus Berendsen fall DKr70 to DKr1,910 on lower-than-expected half-year results.

ASIA PACIFIC

Arbitrage-related selling erodes early gains

Tokyo

ARBITRAGE-RELATED selling eroded early gains yesterday, and the Nikkei index ended slightly lower after moving nervously in a narrow trading range, *writes Emiko Terazono in Tokyo.*

The Nikkei average fell 19.67 to 21,621.63 after a high of 21,802.31 and a low of 21,572.21. Volume rose to 250m shares from 170m as some shares were cross-traded ahead of September book closing.

Declines led advances by 587 to 310, while 184 issues remained unchanged. The Topix index of all first section stocks retreated 13.90 to 1,682.94, and in London the ISE/Nikkei 50 index rose 7.24 to 1,294.19.

Arbitrageurs moved to unwind their positions against September futures, which will expire on September 13. The Tokyo Stock Exchange (TSE) announced that long positions against September futures as of August 23 were down by 83.7m shares or Y126.9bn from a week earlier to a total of 1.1bn shares, worth Y1,238bn. The TSE said that arbitrageurs sold 47.1m shares worth Y48.4bn, while 45.5m shares worth Y45.4bn were bought.

Morgan Stanley was the most active player in arbitrage transactions, buying and selling a total of 29m shares, or 31.3 per cent of the total turnover. Nomura Securities and Salomon Brothers followed.

Sentiment weakened as 81 issues hit new lows for the year. Mr Chris Newton at James Capel said that if the Nikkei index stayed below 22,000 for longer than two to three weeks, a forecasted year-end rally could be in jeopardy.

Regional bank shares were among the most active issues on heavy cross-trading. Traders said that institutional investors realising profits ahead of the September interim book-closing were seen actively trading the issues. Chiba Bank, the most active issue of the day, fell Y10 to Y1,090 and Joyo Bank lost Y8 to Y908.

Showa Shell Sekiyu, the oil refiner, rose Y80 to Y1,890 on reports that it will post a double-digit increase in pre-tax profits for the current fiscal year. Buying spread throughout the sector, with Cosmo Oil rising Y17 to Y762.

Japan Aviation Electronic Industry, the aeronautical navigation equipment maker, plunged Y30 to Y730. Four company officials, including a former president, have been arrested by the Metropolitan Police for their involvement in illegal exports of missile parts.

Sega Enterprises, the game maker, added Y100 to Y11,600 on buying by individual investors. Reports that the company's pre-tax profits for the six months to September would rise by 30 per cent prompted buying.

In Osaka, the OSE average fell 66.93 to 23,291.71 on volume of 47.6m shares. Some electronic issues turned higher toward the close on bargain-hunting. Nintendo, the video game maker, rose Y300 to Y11,400. Strength in Sega Enterprises encouraged investors.

Daishinpan, the non-bank financial company, plummeted Y20 to a record low of Y580 on small-lot selling on reports that the company may have to write off Y8bn in connection with the recent bank loan scandals involving Ms Nui Onoue, the Osaka-based restaurant owner.

Roundup

INDIVIDUAL shares made more impact than general market trends in the Pacific Basin yesterday.

MANILA scored its sixth consecutive improvement, the composite index rising 20.76, or just over 2 per cent, to 1,025.99. This time the index was carried higher by the strong overnight performance of Philippine Long Distance Telephone (PLDT) in the US market.

PLDT finished the session at 585 pesos, up 27.50 pesos, after a high of 592.50 pesos. The issue had gained $1.625 to $22.375 in American Stock Exchange trading overnight.

SINGAPORE saw interest in the 'grey' market, where Singapore Automotive Engineering (SAE), the latest local company to offer shares, was quoted at between S$1.65 and S$1.85, well above the offer price of S$1.20.

Meanwhile, the Strait Times Industrials index rose 7.08 to 1,390.20, as turnover rose from S$53.4m to S$58.9m.

NEW ZEALAND advanced on late buying in Fletcher Challenge and Carter Holt Harvey, which rose 7 cents to NZ$3.60 in 930,000 shares and 6 cents to NZ$1.62 in a thin 65,000 shares respectively.

After opening flat the NZSE-40 index closed 13.10 higher at 1,417.48 after an aggregate loss of 1.9 per cent over the previous three sessions. Turnover rose from NZ$9.3m to NZ$14.6m.

AUSTRALIA was slightly higher although signs of patchiness in the economic recovery, the weight of share issues in the past six months and poor corporate earnings have left many investors on the sidelines.

The All Ordinaries index rose 1.1 to 1,541.2, turnover rising from A$104m to A$164m. Mayne Nickless, the transport, security and healthcare company, rose 8 cents to A$7.32 after reporting a smaller-than-expected decline in profits. News Corp gained 34 cents to A$9.52 on buying in the US.

BOMBAY rebounded after the government approved a big issue of convertible debentures by Reliance Industries. The BSE index added 13.91 to 1,827.59.

KLSE doubts confirmed by money supply move

Lim Siong Hoon says that Malaysia's economic growth is being overshadowed by interest rates

THE Kuala Lumpur stock exchange had already seen better days, and foreign fund managers were on their way out, when Bank Negara, the Malaysian central bank, announced on August 14 that it was going to tighten money supply.

Its intervention was taken as a confirmation of what foreign investors had long thought about the economy: that the inflation rate, officially at 4 per cent, is understated; that the rapid deterioration in the current account deficit (M$8bn forecast this year, compared to M$4.6bn last year) was being tackled by half measures; and that a weak Malaysian dollar, combined with artificially low interest rates, was a recipe for trouble.

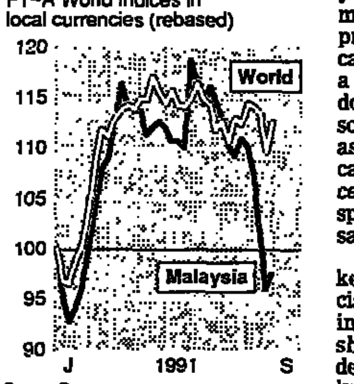
These concerns have overshadowed a 7.5 per cent growth forecast for the Malaysian economy this year. For equities, they took a slow downward consolidation and turned it into a bear market.

The KLSE composite index had reached a 1991 high of 635.02 on May 29, a rise of 34 per cent from the year's low of 470.41 on January 16 during the Gulf crisis. By the end of July the index still stood at 602.32, but it dropped 10 per cent in the first two weeks of August, taking its biggest tumble of the year on August 15 when it fell 18.66, or 3.3 per cent, to 550.92 in reaction to the government's decision to abandon its policy of keeping interest rates artificially low.

"In the normal course of things, the Bank [Negara] hardly causes a flutter in the market. This time it was instructive," says Mr Lau Yew Kong, research manager at CIMB Securities.

In an emerging market like Malaysia's, equity activity has much less of a correlation with domestic interest rates than European bourses, which are so sensitive on this issue at the moment. Malaysian companies are generally lowly-geared, says Mr David Bates of Asia Equity in London, and double tax complications mean that Malaysian equities are so low-yielding to the foreign investor that dividend yield is a negligible incentive.

FT-A World Indices in local currencies (rebased)



Source: Datastream

But this time the market's performance was already weakened by Tokyo's influence and overshadowed by Hong Kong's strength. Kuala Lumpur has been jaded too, following complaints about insider trading and illegal transactions.

This time the monetary restrictions were aimed directly at the consumer. Analysts argue that unless the double-digit growth in aggregate demand eases, more restrictions will follow. Thus, local investors followed the foreign selling.

Finance shares, and car stocks like Oriental, Tanjong and United Motor Works (UMW) which more than doubled their pre-tax profits last year, suffered heavily as this month's measures limited the proportion of finance which can be given to the purchase of a new car. The weak Malaysian dollar was already biting into some profits. UMW, the local assembler of Japan's Toyota cars, reported a mid-year, 3 per cent drop in pre-tax profit in spite of an 11 per cent rise in sales.

The government's policy of keeping interest rates artificially low, aimed at supporting investment, had increasingly shifted savings from bank deposits into the equity market, property and consumer goods. Within the equity market, attention was diverted to new issues which are frequently underpriced. Until mid-August there have been 16 new issues this year, and 40 are still pending.

There seems little appetite for existing equity stocks. The last ten days have seen a mini-crash on the Moscow coup, a recovery on its failure and, in the past three days, a return to decline, a fraction at a time. Lethargy, liquidation of positions and lack of buying support took the KLSE index down 3.22 yesterday to 535.38 and, with investors still wary about interest rates, prices are expected to drift lower still.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY AUGUST 27 1991								MONDAY AUGUST 26 1991					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1991 High	1991 Low	Year ago (approx)
Australia (89)	146.07	+0.3	128.87	126.45	132.79	124.02	+0.4	5.08	145.66	128.62	126.12	132.43	123.47	151.58	112.74	146.05
Austria (20)	173.62	−0.9	153.17	150.30	157.83	157.88	−1.0	1.79	175.16	154.67	151.67	159.25	159.54	222.37	154.82	230.18
Belgium (47)	127.17	+0.4	112.19	110.08	115.60	113.06	+0.4	5.24	126.60	111.79	109.61	115.10	112.58	151.20	118.04	146.27
Canada (114)	139.95	−0.1	123.47	121.14	127.21	115.73	−0.3	3.27	140.12	123.72	121.32	127.38	116.09	142.27	126.49	135.57
Denmark (37)	253.23	+0.0	223.41	219.22	230.19	232.56	+0.0	1.52	253.19	223.57	219.23	230.19	232.48	270.56	217.74	260.64
Finland (16)	95.35	+0.4	84.12	82.55	86.68	85.32	+0.3	2.82	95.01	83.89	82.27	86.38	85.09	125.15	89.53	124.94
France (109)	135.24	+0.0	119.31	117.06	122.92	125.95	+0.0	3.52	135.20	119.38	117.06	122.90	125.90	152.26	119.11	143.20
Germany (65)	108.26	−0.4	95.51	93.73	98.41	98.41	−0.4	2.28	108.73	96.01	94.15	98.84	98.84	125.35	94.15	124.14
Hong Kong (55)	165.55	−1.0	146.05	143.31	150.50	165.03	−1.0	4.27	167.28	147.71	144.84	152.09	166.76	169.98	119.62	126.13
Ireland (18)	153.71	+0.3	135.61	133.06	139.73	141.60	+0.3	3.53	153.26	135.33	132.70	139.33	141.19	182.46	132.88	158.97
Italy (77)	71.00	+0.3	62.64	61.46	64.54	69.23	+0.4	3.38	70.80	62.52	61.30	64.36	68.97	88.23	64.76	93.88
Japan (474)	121.80	−0.1	107.46	105.44	110.74	105.44	−0.1	0.80	121.94	107.67	105.58	110.87	105.58	146.97	118.23	129.87
Malaysia (68)	200.65	−0.3	177.02	173.69	182.40	215.03	−0.3	3.13	201.21	177.68	174.22	182.93	215.67	247.78	189.18	213.91
Mexico (16)	1186.86	+2.4	1047.09	1027.45	1078.91	3955.90	+2.7	1.37	1159.27	1023.66	1003.78	1053.95	3852.53	1186.86	534.45	510.03
Netherland (31)	136.55	−0.8	120.47	118.21	124.13	122.78	−0.8	4.36	137.68	121.58	119.22	125.18	123.73	145.73	125.70	137.74
New Zealand (14)	46.09	−0.2	40.66	39.90	41.90	42.66	−0.3	7.14	46.19	40.79	40.00	42.00	42.77	54.64	41.18	63.04
Norway (31)	203.07	−0.2	179.16	175.80	184.61	188.26	−0.3	1.50	203.58	179.76	176.28	185.09	188.65	223.24	178.58	258.76
Singapore (36)	186.75	−0.4	164.76	161.67	169.76	148.28	−0.4	2.31	187.51	165.57	162.36	170.47	148.92	208.25	151.63	169.34
South Africa (61)	237.43	+0.5	209.47	205.54	215.83	168.51	+0.3	3.23	236.35	208.70	204.64	214.87	168.01	258.85	173.00	175.53
Spain (54)	150.07	−0.2	132.39	129.92	136.42	123.86	−0.2	4.33	150.37	132.78	130.21	136.71	124.12	171.12	131.51	159.83
Sweden (25)	189.58	−0.2	167.26	164.12	172.34	178.08	−0.3	2.49	190.01	167.78	164.53	172.75	178.56	204.12	146.60	200.81
Switzerland (58)	92.05	−0.3	81.21	79.69	83.69	86.88	−0.7	2.22	92.34	81.53	79.96	83.96	87.47	100.67	82.17	97.04
United Kingdom (240)	176.44	−0.6	155.66	152.73	160.38	155.66	−0.7	4.72	177.53	156.76	153.71	161.39	156.76	187.44	156.27	166.21
USA (527)	159.67	−0.1	140.87	138.23	145.15	159.67	−0.1	3.04	159.83	141.14	138.40	145.32	159.83	159.97	125.95	129.61
Europe (828)	138.19	−0.4	121.92	119.63	125.63	124.24	−0.4	3.84	138.72	122.49	120.12	126.12	124.78	151.52	125.50	143.17
Nordic (109)	186.47	−0.1	164.51	161.42	169.51	166.54	−0.1	1.85	186.66	164.82	161.63	169.70	166.75	200.81	155.55	201.84
Pacific Basin (718)	123.62	−0.1	109.06	107.02	112.38	107.48	−0.1	1.18	123.78	109.30	107.18	112.54	107.63	145.92	117.86	130.21
Euro−Pacific (1546)	129.71	−0.2	114.44	112.28	117.91	114.84	−0.3	2.30	130.02	114.81	112.57	118.20	115.15	147.68	121.29	135.84
North America (641)	158.38	−0.1	139.72	137.12	144.00	156.70	−0.1	3.05	158.54	139.99	137.29	144.16	156.87	158.68	125.91	129.88
Europe Ex. UK (588)	115.57	−0.2	101.96	100.06	105.08	106.22	−0.2	3.17	115.80	102.25	100.29	105.30	106.46	129.80	103.58	128.31
Pacific Ex. Japan (244)	141.74	−0.3	125.05	122.72	128.86	126.12	−0.3	4.44	142.19	125.55	123.14	129.28	126.44	147.60	111.40	133.48
World Ex. US (1737)	131.83	−0.2	116.30	114.13	119.84	116.37	−0.2	2.35	132.09	116.64	114.38	120.10	116.65	148.16	122.32	136.44
World Ex. UK (2024)	136.78	−0.1	120.68	118.42	124.36	127.33	−0.1	2.36	136.93	120.91	118.57	124.50	127.49	145.77	120.06	129.77
World Ex. So. Af. (2203)	139.59	−0.2	123.15	120.85	126.91	129.66	−0.2	2.60	139.83	123.47	121.09	127.14	129.91	148.66	122.92	132.75
World Ex. Japan (1790)	151.33	−0.2	133.51	131.02	137.59	143.63	−0.2	3.39	151.61	133.88	131.29	137.86	143.93	152.83	126.69	135.96
The World Index (2284)	140.23	−0.2	123.71	121.40	127.48	129.99	−0.2	2.61	140.46	124.03	121.62	127.70	130.23	149.01	123.28	133.00

Latest prices were unavailable for this edition.

FINANCIAL TIMES SURVEY

An interview with the prime minister, Mahathir Mohamad, Page 6

MALAYSIA

Malaysia has assumed a new assertiveness in its foreign policy: Page 7

SECTION III

Thursday August 29 1991

Malaysia's successes over the past decade are well documented. But concerns about labour shortages, privatisation and social problems cloud the horizon. There is a risk that the government will depending excessively on relentless economic growth. **Alexander Nicoll** reports

Stability is paramount

The trappings of success – consumer goods, construction projects and streets choked with new cars – are easily visible, especially in Kuala Lumpur

MALAYSIA is booming. Ten years after Dr Mahathir Mohamad took office as prime minister, the country is enjoying rapid economic growth and a high level of confidence among foreign investors.

The trappings of success – consumer goods, construction projects and streets choked with new cars – are easily visible in Kuala Lumpur, the capital, and the states which have benefited most: Selangor, Johore and Penang.

Dynamic growth is, however, creating pressures and dangers. Meanwhile, the government's long-standing policies of socio-economic engineering, as well as its firm oversight of many aspects of Malaysian life, carry their risks for the future.

Dr Mahathir, after winning a new mandate in last October's general election – although with a smaller share of the popular vote – has this year renewed the country's longer-term goals following the expiry of the 20-year-old New Economic Policy. Its replacement, the National Development Policy, retains the aims of eradicating poverty and expanding the role in the economy of Malays and natives, collectively known as Bumiputras.

But there is no longer a specific percentage target or time-frame for Bumiputra participation – the aim had been a 30 per cent stake in the corporate sector by 1990. "We are looking now for quality rather than quantity," Dr Mahathir said in an interview. The new emphasis is on increasing Malays' business management skills so they can develop, rather than simply enjoy, the fruits of a policy which favours them.

Underlying the NDP's preoccupation with balanced development of the economy is Dr Mahathir's goal that Malaysia should be a developed country, though retaining traditional values, by the year 2020. Key advisers are closely involved in "Vision 2020", a body set up to determine the conditions necessary to achieve this.

The drive in the second half of the 1980s to attract foreign investment – 100 per cent ownership is allowed of export-oriented projects – has set Malaysia on this path more successfully than Dr Mahathir's earlier push to develop heavy industries.

For foreign manufacturers looking to relocate labour-intensive operations abroad, Malaysia is appealing because of political stability, democracy, ease of doing business, available workforce, reasonable costs, transport and communications, and widespread knowledge of the English language.

Taiwan last year replaced Japan as the biggest investor, with M$6.3bn ($2.3bn) of approved investments. South Korea is making a rapid entrance, and companies from Singapore, the US and Europe also have substantial operations. Approved foreign manufacturing investments have approximately doubled from the previous year's figure in each of the past three years, reaching M$17.6bn in 1990.

With manufacturing accounting for 27 per cent of gross domestic product, compared with 20 per cent five years ago, economic growth has also been buoyant. It has averaged 9 per cent over the past three years. While agriculture remains an important pillar of the economy, the government aims for further substantial expansion of the manufacturing sector.

However, there are now signs of overheating and bottlenecks. Inflation, although it has been below 4 per cent, is creeping up. In the regions which have received the most manufacturing investment, there is virtually full employment. The emerging labour shortages could boost wages and put off new investors.

Imports of capital goods for manufacturing plants have combined with strong consumer spending to push the current account into steep deficit. It is with some relief that economists forecast a rise in interest rates over the rest of this year, and a slowing in the economic growth rate. The central bank recently acted to tighten monetary policy.

Rapid growth has strained the infrastructure. Overcrowding on trunk roads is being eased by the construction of a north-south expressway. Electricity and other projects are under way or planned.

Among longer-term problems, the influx of manufacturing investment has not resulted in significant transfer of technology and skills to Malaysians. Dr Mahathir says patience is required: "Technology transfer can take place if there are recipients capable of receiving the technology. And we don't have that many people who are trained to learn and utilise that technology... But if we cannot absorb all the technology now, we will absorb them later."

Meanwhile, Malaysian sourcing of parts and other goods for new industries remains low. The government plans to stimulate the performance of small and medium-sized industrial companies whose products are often late and of poor quality.

The political backcloth for Malaysia's economic success remains Dr Mahathir's paramount desire to maintain stability in the face of rivalry and latent tension between races.

For him, riots which broke out between the Malay and Chinese communities in 1969 serve as a constant warning to policy-makers of the risks of failure of efforts to keep a balance in society and to raise the overall standard of living. Introducing the National Development Policy and the latest five-year plan to Parliament in June, Dr Mahathir said: "Since the new generation of Malaysians are generally not aware of the events in 1969, it is necessary to remind them and also ourselves that in a multiracial society like ours the existence of socio-economic imbalances along racial lines is not conducive to stability or national unity."

Inevitably, however, attempts to tip the balance towards one sector of the population create unease. Some Malays have tended to view the New Economic Policy as a means purely to get richer. The tendency is to buy shares allotted to Bumiputras, and to sell them for a quick profit. This has created much wealth for little effort among some sections of the Malay community – what some in Malaysia call a *rentier* middle class.

Moreover, there are signs that although the overall level of poverty has been much reduced, differentials within the individual racial communities have widened.

Dr Mahathir depends primarily on Malays for his support – and his popularity is as high now as at any time during his tenure.

However, the tentacles of the United Malays National Organisation (Umno) – the party led by Dr Mahathir – in business, and the appearance that companies with political links get many of the best contracts, are a long-standing source of concern. Although Umno's holdings in business were previously open – and there is a tradition in Malaysia of political parties owning such holdings – there have been recent attempts to regroup.

Many of the companies which have been seen as in Umno's stable have been shifted into the Renong group, headed by Mr Halim Saad, who is said by the opposition Democratic Action Party to be a "front man" for Umno. Dr Mahathir insists Umno has no links with companies, but says companies may be run by people sympathetic to Umno.

Concerns about favouritism towards Malay businesses, and about privatisation which does not increase competition, cloud the outlook for the future. So too do social problems such as the difficulties faced by Chinese young people in getting university places, and memories of government crackdowns in the 1980s, including detention of opposition politicians, suspension of supreme court judges, and bars on publication of newspapers.

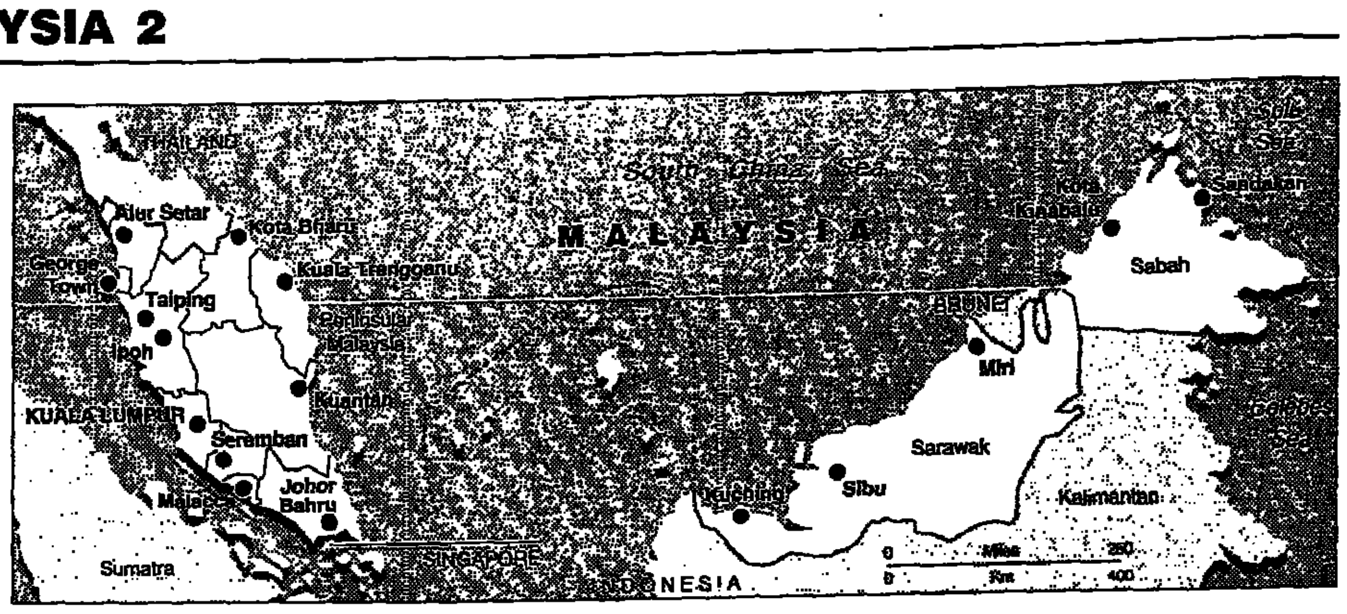
The maintenance of stability – to the extent seen as necessary by Malaysia's leaders – involves a cost in terms of the freedom experienced in many western democracies. The risk is that the government is depending excessively on relentless economic growth to spread wealth and keep tensions in check – and that a significant slowing in growth would upset the whole apple-cart.

IN THIS SURVEY

Editorial production: Phil Sanders

Lim Siong Hoon examines the National Development Policy

Doctrine without a deadline



THE National Development Policy, unveiled in June, is in essence a copy of its predecessor doctrine, the New Economic Policy.

But unlike the NEP, it carries no deadline and no explicit *emphasis on target* quotas for ownership of the corporate sector. It also acknowledges that the previous policy goals had suffered from excesses of implementation.

When Malaysia won independence from Britain in 1957, economic and political power were detached from each other. Political power was in the hands of the Malays; economic power largely *belonged to the* Chinese, with foreign companies also owning large chunks of the country's businesses.

This sowed seeds of dissen*sion which culminated* in the ethnic riots of 1969. The NEP was launched in 1970 as a result.

It has influenced all aspects of Malaysian life, from corporate structures, investment and employment patterns, to daily attitudes. Its twin policy pillars were the eradication of *poverty and economic* restructuring, or, "eliminating the identification of race with economic function." No one was to be worse off, according to its *governing* principles. Incomes for everyone were to be increased but at a faster rate for the poor than the rich.

At the same time, the NEP *set* a target of 1990 by which time 30 per cent of the country's corporate sector would be in the hands of Bumiputras (literally, "sons of the soil"). These are Malays, which now make up about half of the 18m population, and small, diverse groups of natives who represent less than 10 per cent.

As many as three-quarters of the Bumiputras were estimated to be poor in the early 1970s. They were largely agrarian communities and were far more backward in commerce and in the professions than the non-Bumiputras – Chinese who make up 33 per cent of the population now and Indians who make up 10 per cent.

The NEP targets were that 40 per cent of the corporate sector should be in Malaysian, non-Bumiputra hands by 1990 and 30 per cent controlled by foreigners. When the policy had run its full course last year, the statistical achievements were proclaimed a qualified success.

On the alleviation *of poverty*, Malaysia's poverty level had dropped from 52 per cent of all households in 1970 to 17 per cent by 1990, according to the *government's definition*.

On equity distribution, Bumiputras' stake in the corporate sector rose from 2 per cent to 20 per cent between 1970 and *1990*. The share of Chinese and Indians rose from 32 per cent to 46 per cent, and that of foreigners dropped from 63 per cent to 25 per cent. The share not accounted for in these figures is held by nominee companies of unknown ownership.

Dr Mahathir Mohamad, prime minister, acknowledged in 1987 in an interview with the Financial Times, that the NEP was failing to meet its targets. He said it was "in abeyance" and that a newly reformulated policy would have to make up for this. The NEP had been blown off course partly by the recession which hit Malaysia in the mid-1980s.

Hinting then at the likely shape of the replacement, he noted that as soon as a specific figure was given as a target, "it becomes a controversial issue in itself while in fact it is quite meaningless... What is important is to make the Bumiputras competitive in every way."

The NDP, as well as removing the specific targets and time-frame, has put the emphasis firmly on training Bumiputras to manage and develop the wealth they have gained as a result of the NEP. But it was important to keep the NEP's goals and operating principles alive, for reasons that go *beyond national solidarity*.

The United Malays National Organisation (Umno), the Malay party which has been dominant since independence, had staked its reputation on the policy's success. Thus, declaring it in June to be "one of the greatest policies of independent *Malaysia*", Dr Mahathir provided not simply a justification for its continuation. He implied that the reformulated policy had to remain as Umno's raison d'être.

The NEP has had other implications:

- About 1m poor people, principally Malays, were shifted into state-sponsored farms, on the assumption of abundance of land and strong world markets for Malaysia's commodities, mainly rubber and palm *oil. Land* is now nearly exhausted, and prices have not been buoyant. Grievances have grown alongside a decline in farmers' real incomes.
- *The mass transfer of state* assets into Bumiputra hands has resulted in the concentration of wealth among a Malay elite, so that the income disparity is now acknowledged to be greater among Malays than within other communities.
- Last October's election *results were an indication* that shortcomings over equity distribution were seen as much by the poor among Bumiputra as among the non-Bumiputra. In *Kelantan, predominantly* Malay and poor, the coalition lost all its seats. Nationwide, electoral support for the National Front government fell from *more than 60 per cent of* votes in previous general elections to 52 per cent.

Such signals could not have been ignored when the govern*ment produced the NDP. Mend*ing of fences, including agricultural *reforms*, was required.

The NDP's economic, employment and other social targets are contained in an accompanying document called the *Outline Perspective Plan* of 1991 to 2000. Average real annual GDP is to grow by 7 per cent, doubling in absolute size within 10 years; the unemployment rate is be reduced from 6 per cent currently to 4 per cent, and the poverty rate from 17 to 7 per cent.

Social and business reforms aimed at transforming the economy may slow the pace of policy implementation but not change its substance. Since the NDP is the main source of Umno's strength, the party's leaders have little incentive to reduce its importance.

Employment by sector and ethnic group: 1990 (1985 in brackets) percentage of sector's workforce

	Bumiputras	Chinese	Indians
Agriculture	76(75)	16(16)	7(8)
Manufacturing	50(45)	37(43)	12(11)
Whlsle/retail/hotels/restrnts	38(36)	54(56)	7(7)
Govt services	66(66)	25(25)	8(9)
Construction	43(42)	50(51)	6(6)
Registered professionals by ethnic group (1990 percentages)			
Architects	24	74	1
Accountants	11	81	6
Engineers	35	58	5
Dentists	24	51	24
Doctors	28	35	34
Lawyers	22	50	27
Surveyors	45	50	4

Where total is not 100, remainder is made up by other races

Source: Sixth Malaysia Plan, 1991-1995

■STOCK MARKET

Semblance of sobriety

FOR the Malaysian stock market where daily volume averaged about 40m shares in 1989, trading of 100m to 200m shares a day in the early parts of 1990 was a euphoric way to start an independent life after breaking a long-standing cross-listings link with the Stock Exchange of Singapore.

A *semblance of sobriety has* since returned. During the first half of this year, trading volume fell by 2 per cent although there were 30 additional list*ings. They included* Syarikat Telekom, the telecommunications monopoly and the largest group, with 13 per cent of the market's total capitalisation.

To individual Malaysian investors, who have tended to regard the Kuala Lumpur Stock Exchange as a playground for speculative tax-free capital gains, independence for the KLSE probably meant little, if anything.

For the government, however, independence was not only symbolic of the liberalisation and transformation it had *initiated for the domestic econ*omy. But it also opened the way for the sale of state-owned enterprises, and for pumping new life into a long-neglected source of capital.

The exchange is a focal point of the government's asset redistribution policies, although the governing rules are expected to change this year. Companies were previously required to set aside at least 30 per cent of their new issues for "Bumiputra", the ethnic category of Malays and natives. This rule may be eased *and the government may even* allow foreigners to subscribe to new issues.

For stockbrokers, independence offered huge opportuni*ties because of the fast eco*nomic growth and because of privatisation. Scheduled next May is the largest flotation on record, that of Tenaga Nasional, the *electricity* monopoly which has fixed assets valued at M$13.4bn.

For stockbrokers, independence offered big opportunities

These opportunities are *backed by a sympathetic mone*tary policy promoting moderate interest rates, by growth in disposal income and by a large savings market – Malaysian annual savings are equivalent to 30 per cent of GNP. Moreover between 1988 and 1990, the public sector's demands on the overall capital market dropped from 73 per cent to 26 per cent of total funds raised. This *means that financial institu*tions, such as insurers which traditionally hold much of their assets in government securities, will have to alter *their portfolios to accommo*date more corporate equity.

The Employees Provident Fund, a state-managed workers' retirement scheme which had 76 *per cent of its M$47bn* assets in government securities last year, is likely to assert a powerful influence on the market in the future. It is now per*mitted to hold 50 per cent of its* assets in equity, compared with 30 per cent previously.

The brokerage industry has *already gained much from the* changes at the KLSE. Despite the drop in trading volume between the first half of this year and last year, the M$18bn turnover in value terms from January to June nearly equals the total for all of 1990.

In the 19 months to early August, the Kuala Lumpur Stock Exchange index gained 20 per cent. At the end of July, *market capitalisation of the* exchange stood at M$168bn.

A darker side of the market has also emerged: BBMB Securities, a stockbroking subsid*iary of Bank Bumiputra Malay*sia, the country's second-largest bank, needed a capital infusion from its parent after losing M$72m from *alleged "irregular transac*tions" between September 1989 and March 1990. A former chief executive has pleaded not guilty to charges of illegal *share trading*.

Earlier this year, the finance ministry froze further listing of brokerages on the exchange after having approved 10. For companies seeking new capital, the ruling caught them just when the ministry had raised the minimum equity capital requirement 10-fold to M$20m.

The capital restructuring produced a rationalisation of the brokerages on a scale rarely seen in the industry. It forced many brokerages owned by individuals to be sold off, to merge or seek a listing.

*Many of them were previ*ously undercapitalised. The rationalisation would have been inevitable if it was to support the demand for shares and to cope with the financial consequences of the market's abrupt divorce from Singapore's well-funded brokerages.

All the changes were brought about to raise the market's profile and aid domestic economic transformation. However, they have scarcely begun to alter the market's fundamental characteristics.

There remains, for example, a *poor correlation between* interest rates, which rose in recent months to around 8 per cent, and dividend yields, which at end-June grossed 2.5 per cent, down from 3.3 per cent at year-end 1990. During the first six months, market prices fell marginally from 26 to 25 times earnings.

The Malaysian Investors' Association, a private body of *minority shareholders, notes* that tin stocks have gained 43 per cent during the six months although tin prices are at a five-year low.

Speculative trading and inconsistency between the pressures of demand and the limited supply for stocks underlie this imperfection. Vol*atility is fed by local* investors' indifference towards share earnings dilution, by a constant flow of share swaps and by underpricing of new issues.

Lim Siong Hoon

■PRIVATISATION

Latent unpopularity

CHERAS, just south of Kuala Lumpur, is a densely populated suburb where every morning cars choke bumper-to-bumper for up to three hours along the only road leading into and out of the city.

Last year, the kilometre-long stretch which had been the road's bottleneck was widened *by two lanes to six. Where an* interchange was built, a toll gate was also installed.

Days after toll collection started, demonstrations and *riots ensued for three nights* – the first time in the capital since the ethnic violence of 1969.

Residents had refused to pay *the M$2* round trip *toll fee*, which they considered extortionate since the road was the only available one and since a daily trip would cost, in annual terms, 12 per cent of the average income per head.

The subsequent suspension of the Cheras tolls was the most visible setback and the first open challenge to the privatisation programme of Dr *Mahathir Mohamad, prime* minister.

Above all, it highlighted some of the latent unpopularity with the way the privatisation programme, now in its eighth year, had been implemented.

"The lesson is that we need to pay more attention to the terms of the agreement," says Mr Razman Hafidz Abu Zarim, *executive director at* Price Waterhouse which has advised on several privatisation projects.

But, in replacing the old *agreement, the government* also demonstrated its determination to press ahead with the programme: toll collection will resume on September 15, *almost exactly a year after* its suspension, coinciding with a new, more intensive phase of privatisation.

From 1983 to last year, 36 state enterprises were either sold or restructured. During 1991 and 1992, some 60 or more are due to be sold. They range from abattoirs and airports to rice mills and shipyards. Scheduled for next May is the largest ever flotation, that of Tenaga Nasional, the electricity monopoly in peninsular Malaysia.

In few other countries is pri*vatisation pursued with as* much vigour as in Malaysia.

A privatisation "masterplan" completed last year picked 246 public enterprises and services *across the spectrum of the* economy.

They were classified into three categories: those to be privatised within two years, those within two to five years and those that would take longer than five years.

The main reasons for privatisation are *three-fold: relieving the government's financial* burden, improving economic efficiency and growth, and meeting national policy targets

Their privatisation – sale of *equity, leasing, management* contracts, licensing, management buy-outs (MBO) and build-operate-transfer (BOT) arrangements – would affect almost *200,000* employees with estimated annual earnings of M$1.8bn.

The enterprises are valued at M$16.3bn, although this total is questionable.

The main reasons for privati*sation are three-fold: relieving* the government's financial burden, improving economic efficiency and growth, and meeting national policy targets.

The last refers to the New Economic Policy (NEP) of 1970 to 1990, since recast as the National Development Policy.

By transferring state-owned assets to Malays, the government argues that it would help meet the policy's principal aim of giving them at least 30 per cent ownership of corporate equity.

One result of privatisation will be the transfer of M$7.5bn in government debt to private entities, according to Mr Ismail Muhammad of the Institute of Strategic and International Studies.

It represents 18 per cent of the government's outstanding debt in 1987.

Telekom, *the telephone* monopoly, is a case in point. After 25 per cent of the group was sold in a M$2.5bn flotation last year, Telekom cut its *long-term debt virtually over*night by 63 per cent to M$1.4bn.

There are also claims that privatisation has created a *market environment which has* improved efficiency in, for example, container delivery services. It is also said to have *opened up new market seg*ments, such as pay-phones and paging systems.

However, privatisation in Malaysia seldom results in private control of the enterprises, since the government continues to exert considerable influence over their operations.

Major groups such as Telekom, *Malaysia Airline System* (MAS), the national carrier, and *Malaysian International* Shipping Corporation remain under state equity control. In order to raise air fares, to offset higher fuel costs, MAS *must obtain permission from* the government.

The extension of the state into the affairs of privatised entities reflects the pervasive mixture of domestic politics and business.

Where the state has no majority equity shareholding, former civil servants and members of ruling political parties – especially the United Malays National Organisation (Umno) – are often the preferred new owners.

The NEP, and now the *NDP*, are used as the justification for this.

The list of such privatisations include: the build-operate-transfer agreement for *the* M$6bn North-South Expressway; the build-operate concession for TV3, a private television channel; the equity sale of Cement Industries of Malaysia; the equity sale of United Asian Bank, Malaysia's *sixth* largest bank; and the management buy-outs of Fima, the food and packaging group, and Peremba, the property group.

"Political accreditation is necessary, or else you fight an uphill task getting approvals," says a merchant banker.

Because privatisation is seldom transparent, talk of political patronage is rife and questions have emerged about the valuation of enterprises.

Sometimes, an enterprise may be sold after a new team of executives is installed.

Despite scepticism about the programme, it has managed to move forward because of the combination of political will, a large and available capital supply, relatively *low* interest rates and "favourable" rates of return.

Resumption of the toll collection at Cheras, now reduced to M$1, also *showed* the government's willingness to compro*mise and not stand down in* the face of a challenge to its programme.

Residents there remain unhappy, however. The Cheras *gate is the only collection* point, although the same company had built four other interchanges, three of which are free while collection at the fourth, and another, will begin only in 1994.

Meanwhile, bumper-to-bumper traffic continues every morning in Cheras.

Lim Siong Hoon

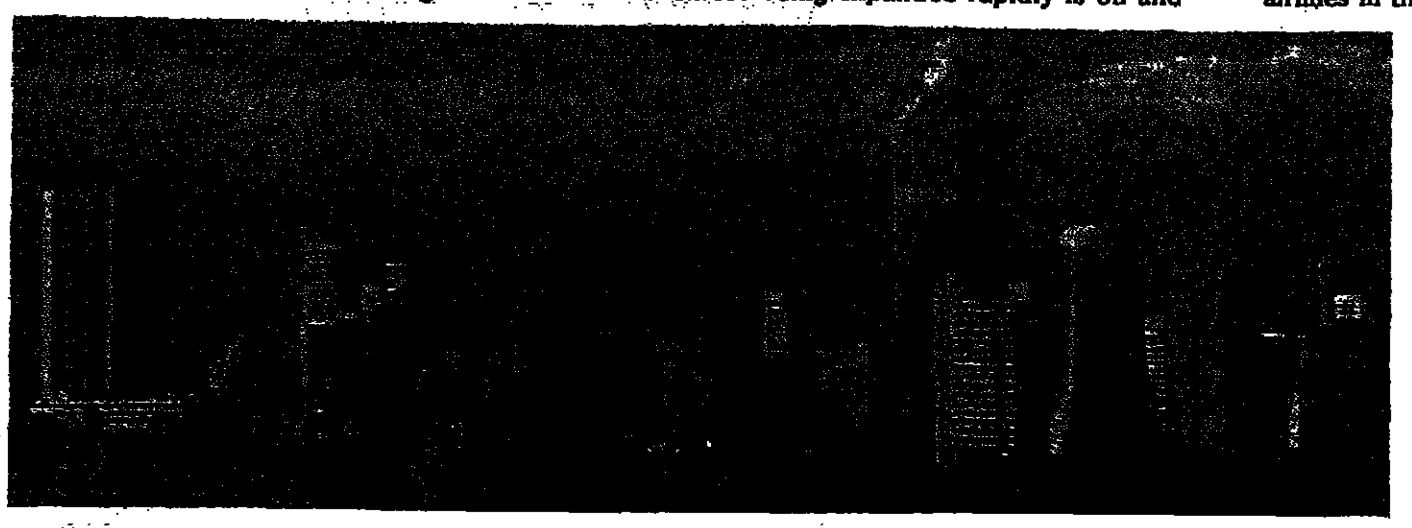
SIME DARBY
A Driving Force in a Thriving Region

At the beginning of the Twentieth Century, American President Theodore Roosevelt expressed the view that 'the Mediterranean is the ocean of the past. The Atlantic is the ocean of the present, and the Pacific will be the ocean of the future'.

The future has indeed arrived.

Four countries in the Pacific Region – South Korea, Taiwan, Hong Kong and Singapore – despite being resource-poor, have breathed so much fire on the economic front that they were named the Four Little Dragons or, in economic terminology, Newly Industrialised Economies.

More recently, the three resource-rich countries of the Association of Southeast Asian Nations (ASEAN), Thailand, Indonesia and Malaysia, have been gaining increased momentum in their determined drive from farm to factory and beyond. In fact, they have already begun to be referred to as the Asean Tigers.



Malaysia Booms with 10% GDP

Malaysia, as one of the Asean Tigers, posted a remarkable 10 per cent growth in 1990. As the Gulf crisis has shown, Malaysia's economy is probably more robust than any other in Asia. Not only is it resource-rich, but its wide-ranging programme of economic diversification has also begun to have an impact. Commodities today account for less than 29 per cent of Gross Domestic Product while, at the same time, manufacturing has expanded significantly to more than 27 per cent.

Malaysia continues to attract foreign investors because of its ample natural resources, political stability, strong infrastructure, quality of its workforce, and investment incentives, including tax holidays. The nation's leadership has also announced Vision 2020, a national endeavour to make Malaysia a fully developed country by the year 2020.

Sime Darby Reflects the Dynamic Progress of the Region

In 1910, just about the time that President Roosevelt was making his bold prediction, Scottish adventurer William Middleton Sime and English banker Henry Darby put their names together to form a plantations company called Sime Darby.

Today, Sime Darby is Malaysia's number one corporation, with widely diversified businesses and market capitalisation of over US$2 billion. It is also the largest multinational in Southeast Asia.

In the past two decades, the company has undergone a structural transformation, having successfully developed four other core businesses beyond plantations. These include manufacturing; heavy equipment and motor vehicle distribution; property development; and insurance. A sixth core business being expanded rapidly is oil and gas because of Malaysia's rich resources in this area.

Regional Operations Ensure Strong Local Knowledge and Connections

Sime Darby business activities are grouped to fit the nature of its diverse operations and broad geographic markets. The Group today comprises companies in 12 countries in Europe, the United States and Asia Pacific. To support its extensive trading and manufacturing interests in Asia, the Group has regional operations in Hong Kong, the Philippines, Australia, Indonesia, Brunei, Thailand and Singapore as well as Malaysia.

Regional operations include diverse businesses, from natural resources to mass consumer products to commercial and industrial equipment and systems.

In Hong Kong, Sime Darby markets a range of motor vehicles – including BMW, Ford, Suzuki, Alfa Romeo and Mitsubishi cars – and commercial vehicles. It is also involved in heavy equipment, engineering, property, insurance, finance and shipping activities.

The Singapore operations include the marketing of BMW and Ford cars, Land Rover vehicles, heavy equipment, manufacture of packaging materials and marketing of a wide range of consumer goods, as well as property management and consumer services such as travel and car rental.

Sime Darby also manufactures Sime Darby branded tyres with BF Goodrich as the technical partner in the Philippines, and distributes Suzuki vehicles and motorcycles, manufactures furniture and assembles bicycles in Australia.

The Group has a packaging manufacturing operation and owns and manages a commercial estate in Indonesia. In Thailand, Sime Darby has a significant investment in insurance underwriting and owns and manages an insurance broking company.

Sime Darby Malaysia Region produces a wide range of high quality products for the domestic and export markets, and has agency lines in consumer products, electronic equipment, computers and engineering products. It also offers services covering travel, securities, car rental and computers.

The goal is to continue to strengthen the Group's presence in Southeast Asia and other Pacific Rim countries which offer opportunities for investment and expansion.

Diversification Strengthens the Group

In the area of manufacturing, Sime businesses manufacture and market a broad range of automotive, earthmover and aviation tyres. This division is Malaysia's largest tyre producer and the largest exporter of tyres in Southeast Asia. The aircraft tyre division has contracts with major airlines in the region. Earthmover tyres are exported to Europe, the Middle East and Asian countries.

The automotive tyre division has invested in state-of-the-art precision equipment to make Sime's technology among the most advanced in the world. The investment and Sime's affiliation with technical partner Sumitomo Rubber Industries of Japan allow the group to produce high-performance VR and ZR speed-rated tyres for today's supercars.

The distribution of heavy equipment and motor vehicle assembly are handled by Sime Darby subsidiary, Tractors Malaysia. The heavy equipment division distributes and provides product support for the complete range of Caterpillar heavy equipment, engines and lift trucks and a comprehensive range of agricultural, road construction and quarrying equipment. The motor division assembles and distributes Ford, BMW and Land Rover vehicles as well as Scania trucks and commercial vehicles. The company also assembles Mazda passenger cars and Suzuki 4-wheel drive vehicles under contract.

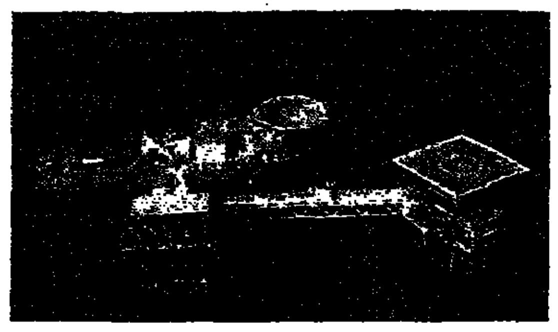
Sime UEP provides the base of the Group's property development operation. The subsidiary has developed Southeast Asia's largest township built by a single developer and is in the process of building industrial estates for modern warehousing and light industry.

Insurance services provided by the Group comprise general and life insurance, health and medical insurance, and both insurance and reinsurance broking.

Plantations traditionally provided the foundation of the Sime Darby Group. Today, the organisation has 200,000 acres of prime tropical agricultural land under

oil palm, rubber and cocoa. The Group has also moved into downstream activities, such as the refining and packaging of vegetable oils and specialty fats, and the manufacture of dipped latex products including examination gloves and condoms.

The Group has seen significant growth in its newest area of diversification, the oil and natural gas industry, through the development of exploration, design and fabrication capabilities. Major contracts for Shell, Esso and Petronas, Malaysia's national oil company, have included fabricated offshore production platforms and jackets for Malaysian oil production. Sime Darby has fabricated and delivered a jacket to the Qatar North Field Development Project in the Arabian Gulf and is in a strong position to pursue opportunities in other overseas markets.



Hands-on From Dunlop Tyres to BMWs

The Group's high standards for quality, efficiency and integrity have led to joint venture arrangements and other business affiliations with organisations in Europe and North America. Its strong connections and presence in the region, coupled with a proven track record in finance, management and marketing, make it attractive as a business partner.

A broad range of globally-recognised names have joined forces with the Group in the region. Of these, a number have

taken advantage of Sime's knowledge of the region and extensive network. In addition to BMW, Land Rover, and Ford partnerships for the assembly, distribution and product support of their vehicles, the Group designs, manufactures, markets and distributes Chubb security equipment for banks and financial institutions as well as for the commercial and household sectors. Tractors Malaysia is one of the top 10 Caterpillar dealerships in sales and customer support in the world.

In a 50-50 joint-venture with the Michelin Aircraft Tyre Corporation, the Group manufactures high quality aircraft tyres for major airlines in Singapore, Indonesia, Australia, Pakistan and Malaysia. Michelin Sime Aircraft Tyre Company was the first company in the world to retread tyres for Boeing 747-400 aircraft.

Other international business partners include Berger Paints with whom Sime has a technical agreement to manufacture and distribute paint; Rengo, Japan's leading packaging company; and the Inax Corporation of Japan which has a joint venture manufacturing arrangement with Sime Darby to produce sanitaryware exported to the buoyant markets of Japan, Singapore and Korea. A Sime Darby-Hyundai joint venture company manufactures furniture for export markets around the world.

A Letter from the Group Chief Executive

I hope we have succeeded in giving you a tour de horizon of Asia Pacific, Malaysia and Sime Darby. We believe it is a glowing picture, because the underlying fundamentals have always been strong.

What is the Secret of Sime Darby's Success?

*The Sime Darby Group has greatly benefited from the growth and development of the Asia Pacific region, which is not really surprising since we pride ourselves on being the Regional Multinational. That, of course, is not the only reason for the Sime Darby Group's success in recent years, and here I must give credit to the management staff for their professionalism in both planning and execution. We provide our staff with the best in terms of management training and give our executives the responsibility and the opportunity to show their worth, but we are extremely demanding in our standards and so far we have not been disappointed in the response.

I must confess we are inclined to be conservative in our management approach, and whilst some may see this as a weakness, we believe in the trustee relationship and in looking after shareholders' funds. The Sime Darby Group profits are real, genuine, cash-in-the-bank profits as reflected in our balance sheet strength. We are not about to change our ways, though we may start to become more acquisitive as value for money opportunities present themselves.

Sime Darby is a regional Group, and we would like to continue to build up our regional presence and strength still further in new business ventures with new partners who have the technology and the resources to match our demanding standards. If you have either the intention or the desire to move into this region, I cannot believe you will find a better business partner than Sime Darby.

What is Sime Darby's Long-Term Strategy?

Increased manufacturing is an aspiration for Malaysia and the other regional countries. In this respect, as the regional multinational, we would like to realise this aspiration but, equally importantly, we are concerned to see that any business venture we enter into is a viable long-term project.

For the future, we will also be increasing our efforts in seeking exports in overseas markets. Examples of Japan, Korea and Taiwan are there to remind us that exported growth is a powerful route to rapid economic expansion, and Malaysia has made a commitment to reach developed country standards by the year 2020.

Small countries like Malaysia can move towards achieving such a watershed for its people by specialising and developing an expertise in certain niche areas of manufacture or with certain specific products.

Just as many people have been amazed by our capacity to achieve the success we enjoy today – as a company, as a country and as a region – there will be many who will be surprised by our progress in the future. Sime Darby believes in open, free international trade which will provide the opportunity and the incentive for world peace, progress and prosperity. The way forward is clear, and I am confident that the opportunities in Asia Pacific are virtually limitless.

Sincerely yours,

Tunku Ahmad Yahaya

For further enquiries, please contact: The Communications Department, Sime Darby Berhad, Wisma Sime Darby, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia. Telefax: 03-298 7398. Telex: SDMAL MA 30038

MALAYSIA 4

Lim Siong Hoon reports on the economy

Slowdown in growth predicted

MALAYSIA is finding relief in predictions that point to a deceleration from last year's real growth in gross domestic product of 10 per cent. This year is expected to see 7.5 per cent growth.

Double-digit growth rates could hardly have been sustainable without worsening problems that stem from rises in inflation and the current account deficit.

The official inflation rate stands at about 4 per cent although, according to some estimates, 6 to 7 per cent seems more realistic. The current account deficit stands to exceed M$8bn, or 7 per cent of GNP this year, compared with M$400m in 1989.

Despite double-digit rates of export growth, imports, mainly of capital goods, are rising twice as rapidly so that last year's M$4.6bn merchandise trade surplus stands to be erased this year. During the first quarter, the account was already M$1.8bn in deficit.

Underlying these figures is the pace of expansion in the manufacturing sector, on which Malaysia's economic growth for the decade ahead depends.

In 1985, manufactured goods accounted for 33 per cent of total merchandise exports; last year it was 60 per cent. Their share is targeted to reach at least 80 per cent by the year 2000.

Economic indicators

	1988	1989	1990	1991	1992
GDP (% change)	8.9	8.8	9.4	8.5	8.7
Agriculture (% change)	5.4	5.8	3.7	3.0	3.0
Industry (% change)	12.7	11.0	12.8	10.3	10.4
Manufacturing (% change)	17.6	12.0	15.8	13.0	13.0
Services (% change)	7.2	8.2	8.8	9.3	9.5
Inflation(CPI) (% change)	2.5	2.8	3.1	4.0	4.5
Merchandise exports (US$bn)	20.9	24.8	28.7	32.7	37.6
(% change)	17.4	19.1	15.6	14.0	15.0
Merchandise imports (US$bn)	15.3	20.9	26.2	31.4	38.9
(% change)	28.4	36.7	25.0	20.0	24.0
Trade balance (US$bn)	5.5	3.9	2.5	1.3	-1.3
Current acc't blnce (US$bn)	1.8	-0.2	-1.8	-1.6	-0.9
External debt (US$bn)	20.4	18.6	15.5	15.0	15.0
Debt service ratio (%)	22.2	14.6	11.4	8.5	8.0

Source: Asian Development Bank

The importance Malaysia attaches to the manufacturing sector points to the structural economic transformation under way. Between 1988 and 1990, approved investments in manufacturing leapt 476 per cent to M$28.2bn; they are still rising.

This explains why the trade figures so far this year have seen a big jump in imports such as specialised equipment for factories and telecommunications, floating structures and transport machinery.

Japan and Taiwan are becoming Malaysia's biggest trading partners and it has incurred substantial deficits with them. This is predictable, since they are also currently Malaysia's biggest investors.

Between 1980 and 1983, Taiwanese equity in approved investments amounted to several million Malaysian dollars. Last year, it was M$2.4bn. Taiwan and Japan's combined contribution accounted for two-thirds of the M$6.3bn in foreign capital.

Backed by this influx of foreign investment, capital formation rose 63 per cent from M$23.7bn in 1988 to M$38.7bn in 1990. Aggregate demand has been strong, as wages have risen, unemployment has dropped to 6 per cent, and consumption has turned brisk.

Malaysia's dilemma between moderating demand and retaining its fast growth has largely been met by tighter control of the money supply while restraining rises in interest rates. In the middle of August, the central bank tightened monetary policy, pushing up interest rates in the interbank market, increasing banks' reserve requirements, and restricting loans for purchases of new cars. The measures were designed to rein in rapid money supply growth and boost the savings rate.

At 4.3 per cent of 1990 GNP, the current account deficit was higher than Indonesia's (1 per cent) and Thailand's (4 per cent). It is worse than in Singapore and South Korea, which have surpluses.

Net external reserves may be sufficient to finance just 3.6 months of imports this year compared with 5.1 months in 1988 although, in absolute terms, the reserves have risen annually.

None of these difficulties are at crisis points, but they are putting Malaysia's economic management to the test – how it should tackle its current account deficits, particularly in services; its foreign exchange rate policy; and its tax and credit regime which tends to favour the manufacturing sector and capital outflow.

Domestic monetary measures and a policy to promote a surplus in services, for instance foreign tourism, have been the main tools of economic management. Tourism last year grossed M$4.5bn. Malaysia's central bank, said in London to be an important participant in the foreign exchange market, netted M$4.1bn in offshore "investment income", or 30 per cent of total service receipts.

Yet the results suggest these measures are inadequate. Suggestions have emerged in recent months that the tax regime should be altered to promote retention of profits in Malaysia. It is also suggested that monetary policy should be adjusted to promote higher savings, in order to moderate consumption and inflation.

Slowly rising interest rates this year indicate that this may be under way. Over recent months, the prime rate has risen by 1 percentage point to 8 per cent, the highest level in more than five years. Further increases in interest rates are likely to be cautious rather than drastic, unless this year's GDP growth surpasses the forecast of 7.5 per cent.

Despite five years of export controls, world tin stocks still remain high

■MINING

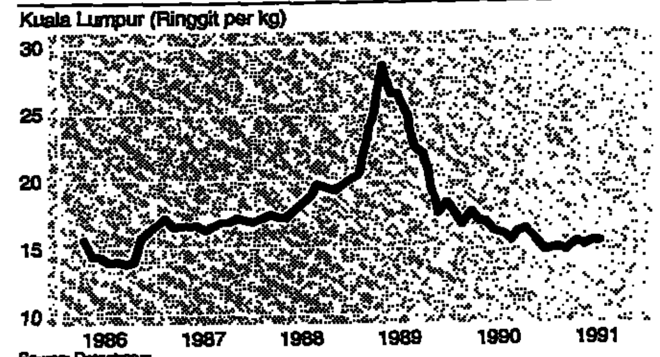
Recovery prospects remain dim for tin

THE PROSPECTS for a full recovery of the Malaysian tin industry remain dim, six years after the 1985 collapse in world market prices of the metal.

Over the past year, Kuala Lumpur tin prices have seldom risen above M$15.50 a kilogram compared with the 1986 average of M$15.49 and last year's M$16.50.

In an address to miners earlier this year, Mr Lim Keng Yaik, minister of primary industries, emphasised that the present slump was worse for the industry than the period immediately after the price collapse. "There is a limit to our cost reduction efforts, and we have reached optimum levels of costs reduction," he said.

Tin



Source: Datastream

Malaysian output in 1980 was 61,400 tonnes, the world's largest. At M$28.90 a kilogram, tin earned M$2.5bn as the country's fifth-largest commodity export earner. The industry employed 39,000 people.

A decade later, employment had dropped to 8,000, production had fallen by about half, and earnings were down by two-thirds.

This deterioration is officially recognised. Under the Sixth Malaysia Plan of 1991-95, unveiled in June, the government expects production to drop from 29,000 tonnes last year to 21,000 tonnes by 1995. At the forecast price of M$16.00 a kilogram, tin will earn about M$730m, down by 20 per cent from 1990.

Measures such as a small degree of tax relief have been introduced to prevent the industry from terminal decline. But most government attempts are focused internationally rather than at home.

The Association of Tin Producing Countries, grouping Australia, Bolivia, Indonesia, Malaysia, Nigeria, Thailand and Zaire, is essentially a Malaysian initiative to control the flow of world supply in the hope of influencing prices. However, after five years of export controls, world stocks remain high – at about 45,700 tonnes last December.

Malaysia's difficulties in improving the domestic industry by influencing the world market stem not simply from the absence of Brazil, now the world's largest producer, and China in the ATPC. Malaysia has been unwilling to devote more resources – for example by heeding miners' requests for lower land taxes – to search for high-grade ore in order to produce at costs comparable to those of Indonesia and Brazil.

In oil and gas, the other main exploration activity, the situation is vastly different. Malaysia has steadily pushed up its crude oil production, especially over the past decade. It has risen from 275,000 barrels per day in 1980 to 622,000 b/d last year.

Petroleum, as the US Embassy in Kuala Lumpur observed in a recent report, "is not the key to Malaysia's economy, although it is a welcome addition." Its economic importance is likely to grow over the coming decade, principally because of changing demand and a strategy to promote it as a domestic raw material resource.

In the past, Malaysia exported its low sulfur crude at a premium while it imported cheaper Middle East oil for local consumption. This is changing: imports have fallen 81 per cent between 1980 and 1990 as local refineries process more local crude. While crude output has risen by 126 per cent during the decade, its exports rose by 29 per cent. In value terms, exports actual fell by 19 per cent.

Energy demand, meanwhile, is rising more rapidly, at a forecast rate of 9.5 per cent annually from 1991 to 1995 compared with 7.7 per cent during the previous five years. Malaysia expects to double its refining capacity to 445,000 b/d when the Malacca 230,000 b/d refinery is ready by 1995.

During the early eighties, Malaysia attempted to conserve its crude through a National Depletion Policy. But the policy gave way to a number of events, including a deep recession in the mid-eighties.

Since 1987 it has given oil companies better terms under its production sharing contract in order to raise the level of reserves. As a result, 22 consortiums have joined Exxon and Shell in obtaining 26 contracts; drilling activity rose from 70 exploration and production wells in 1988 to 145 last year.

Even so, present reserves of about 3bn barrels would be depleted by the turn of the century without any addition to reserves. Over the next five years, the official production target has been set at 630,000 barrels, near present levels.

Thus, natural gas is gaining importance as an alternative energy source, as a source of foreign exchange, and as fuel and feedstock for a number of steel, aluminium and petrochemical plants now being planned or under construction.

At nearly 57 trillion standard cubic feet currently, Malaysia's gas reserves are the 13th largest in the world. Annual liquid gas exports are expected to rise by 11 per cent over the next five years. Offshore gas will be drawn into a 730km peninsular pipeline beginning next year. Oil-fuelled power plants are currently being converted to receive gas.

Lim Siong Hoon

■AGRICULTURE

Fresh reforms are on the way

THE Malaysian government is to try to reform its agricultural sector for the second time to prevent it from falling into severe decline. Failure to do so may carry political costs.

Previously, government attempts to reorganise land ownership had the effect of fragmenting agricultural land and creating inefficiency. Now, the government is seeking to centralise management and return ownership to the private sector.

Because of the growth of manufacturing industry, agricultural commodities are no longer the mainstay of the Malaysian economy. Over the past five years, their share of export revenues has halved to 10 per cent while that of manufactured goods has nearly doubled to 60 per cent.

However, their economic and political importance should not be under-rated. Agriculture still accounts for 19 per cent of gross domestic product – only slightly down from five years ago – and 23 per cent of the country's labour force.

More than three-quarters of agricultural workers are Malays, by far the largest proportion of any sector of the economy.

Malaysia gives substantial support to its farmers. Agriculture received nearly a quarter of federal capital expenditures between 1986 and 1990, excluding price support, cheap credit and the cost of a vast bureaucracy.

The spending serves the government's income redistribution policy – boosting the role of indigenous Malays, or Bumiputras, in the economy – and it also builds, in the process, a strong political constituency for the ruling party, the United Malays National Organisation.

In the 20 years of the New Economic Policy from 1970 to 1990, poverty was reduced from 51 per cent of rural households to 22 per cent last year, according to government definitions.

The strategy was exceptional in scope and resourcefulness. Contractors hacked out serviceable land from the fringes of jungle, planted seedlings, built houses, fixed the utilities, then handed over the keys.

As many as a million people benefited from such schemes. They helped make Malaysia the world's largest palm oil producer and helped to sustain rubber output when commercial plantations were retreating from the business.

Today, state-sponsored farms and other smallholdings account for nearly 70 per cent of rubber output compared with 44 per cent 20 years earlier. They occupy 80 per cent of rubber-cultivated land, 53 per cent of oil palm and 56 per cent of cocoa.

This created, however, glaring differences in yields, productivity and cost levels between business-oriented plantations and subsidised state farming. It also pushed a new class of farmers into the vagaries of the world commodity markets where the influence of the Malaysian government on demand and prices was greatly limited.

Foreign trade policy, backed by promotion missions in China and the Middle East, was called in for support.

But rubber prices, in real terms, are at a five-year low; the palm oil price boom during the early 1980s has long dissipated.

And the consequences are reflected in farm incomes. Rubber growers' net monthly average income dropped 33 per cent from 1988 to M$483 last year; oil palm farmers were worse off, with incomes falling 50 per cent to M$438.

Charges of bureaucratic mismanagement and corruption have grown.

The government's view, however, is that the system is inefficient. It contrasts the situation the farmers face to that of the plantations – the system organised by British colonists to keep down costs, introduce high-yielding crops, centralise management and achieve high productivity – which have survived equally tough times.

Individual land titles were once handed out as an incentive to improve productivity in state farms. But the government now argues that changing property rights risks fragmenting land when economies of scale and central management are crucial to greater efficiency.

It now proposes to consolidate the individually tenanted farm holdings under private corporate entities, with up to 49 per cent of equity to be held by farmers themselves. Who holds the remaining equity is unclear.

Because the concept is modelled after a plantation ownership structure, it is probable that existing plantations may be given control in return for fresh investments and for running the farms. Mr Ghafar Baba, the deputy prime minister, last year called for private, including foreign, investment to support the changes.

Any acceptance of foreign investors into the reforms will bring full circle Malaysian estate land ownership policy, which was hostile towards foreign control a decade ago.

The clearest indication yet that a policy reversal may be imminent came in June when Aarhus Ollie, the Danish vegetable refiner, bought 19 per cent of United Plantation from Fima, a state-owned food group since privatised under a management buy-out. The stake gives the Danish 32 per cent equity control and a combined foreign shareholding of more 50 per cent.

No official explanation has emerged from the transactions, suggesting that the government may be moving discreetly on a sensitive issue. It may also need to weigh its asset redistribution policy against the need to back up reforms by accommodating big companies at home and abroad.

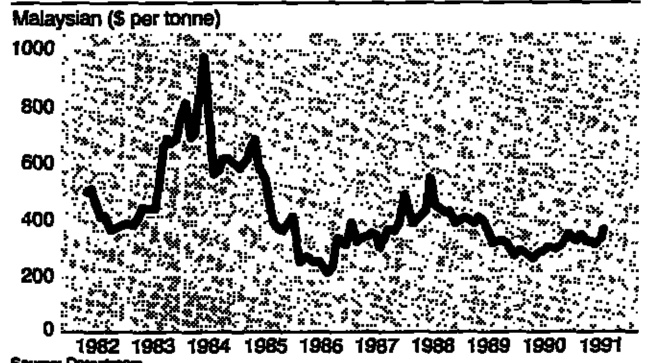
There are other compelling reasons for change. Output may decline because of strong rival demands from the industrial sector for land, labour and credit.

In the past, farm output was raised primarily by opening up more land. Now, this is nearly exhausted. Labour, too, is in short supply, with migrant workers, especially from Indonesia, increasingly to be found in Malaysian agriculture. The thrust of government spending on agriculture in the 1990s will therefore be on improving productivity and infrastructure.

Lim Siong Hoon

Rubber growers' net average income dropped 33 per cent

Palm oil



Source: Datastream

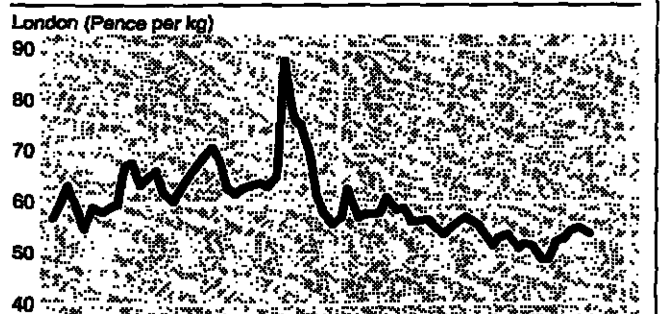
Production of main agricultural commodities (in thousands of tonnes)

	1985	1986	1987	1988	1989	1990
Rubber	1,470	1,539	1,579	1,662	1,422	1,291
Crude palm oil	4,133	4,544	4,533	5,030	6,055	6,095
Palm kernel	1,212	1,336	1,311	1,413	1,794	1,845
Sawlogs¹	30,956	29,869	36,149	37,728	39,709	41,000
Sawn timber¹	5,550	5,424	6,222	6,684	8,322	8,900
Cocoa	108	132	191	225	250	262

¹in thousand cubic metres

Source: Sixth Malaysia Plan 1991-1995

Rubber



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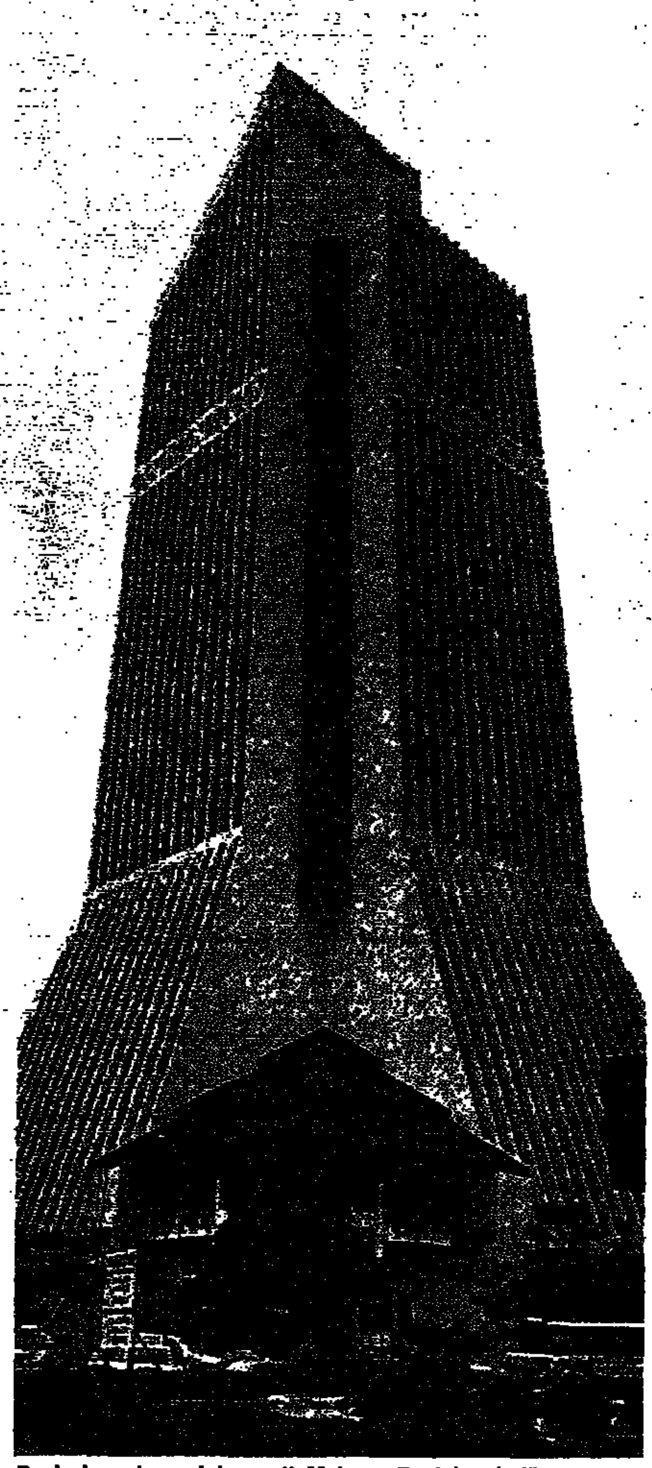


Banks have been doing well: Malayan Bank head office

The corporate sector is in fine health, writes **Alexander Nicoll**

Heady atmosphere prevails

MALAYSIA'S corporate sector is generally in fine health – as may be expected in a country which has been experiencing rapid economic growth for several years and is likely to continue to do so at least for another year.

Consumer products, property, construction, engineering, communications and other infrastructural companies are among those to have been doing well, in addition to banks and gambling resorts.

As an example of the heady atmosphere, new car sales rose 28 per cent last year – growth which led to government curbs on loans to finance car purchases earlier this month.

Many of the immediate concerns which surround Malaysian companies are those springing from the nation's success: labour shortages in some areas and wage pressures, worries about government measures to cool an overheating economy, fears of inability to continue to match high rates of profits growth.

The need to improve transport, communications and energy supply benefits companies involved in constructing the nation's infrastructure. Meanwhile, other companies are riding on the back of higher disposable income and consumer spending created by the investment boom and high employment. The plantations sector remains somewhat in the doldrums, reflecting poor world prices for the main export commodities, palm oil and rubber.

Malaysia still has some way to go, however, towards building a strong corporate base for the future. The present happy climate is created by strong economic growth, itself fuelled by heavy foreign investment in manufacturing goods in which Malaysian companies have limited direct interest – foreign companies are allowed to own 100 per cent of export-oriented operations.

The question of what will happen if this growth falters is one of the most serious facing government and business. When this day comes, it will provide a severe test of companies' efficiency and management.

It is notable that despite government-sponsored attempts to boost business – particularly Malay business – there remains a dearth of genuine industrialists in Malaysia: people who have built up big industrial companies through entrepreneurial and managerial skill.

Many of the biggest companies rely heavily on receiving the government's business. In particular, the growing need to improve the country's infrastructure to match the growth of manufacturing industry has already been the source of many lucrative contracts and will continue to be under the spending targets for the recently published five-year plan up to 1995. Of contracts at present under way, the biggest is for the construction and operation of the north-south highway in peninsular Malaysia. A second crossing from Malaysia to Singapore will also be a source of large contracts shortly.

For Malaysian businessmen, political connections and clout are virtually essential for success. This is true not only for industrial companies seeking contracts, but also for financial services companies.

Merchant bankers admit that much of the capital markets transactions they handle are little more than paper-shuffling, with little role in development and growth of companies' operations.

The strictures of the New Economic Policy, that ownership of each company should be at least 30 per cent Bumiputra with 40 per cent owned by Chinese or Indian interests and 30 per cent by foreigners, have made companies very vulnerable to share transactions made for the short-term gain of shareholders rather than the longer-term interests of the companies.

The NEP is also a good source of business for banks and brokers. Many deals have been generated directly by the NEP, as companies going public must offer 30 per cent of the shares to Bumiputra investors. There are a large number of share swaps and other corporate restructurings.

Although the NEP has been replaced by the National Development Policy – which contains no specific targets for corporate ownership – the bodies which oversee capital market transactions still expect the same proportions in individual deals. They are expected to issue new guidelines soon, and may relax their positions somewhat.

These bodies are the Capital Issues Committee (CIC) and the Foreign Investment Committee. All capital market transactions must be approved by the CIC – and good political connections are very helpful in obtaining approval, bankers say.

The CIC must approve all details of a transaction before it can be launched, including share prices. Brokers say that many new issues are underpriced, leading to quick profits especially for the Bumiputra investors who receive shares as of right.

At present, foreign investors cannot subscribe to new issues and so must buy shares later, creating ready buyers for the quick sellers.

Dr Mahathir Mohamad, prime minister, has criticised the trend of Bumiputras to sell shares for quick profit and warned them that they must learn to manage their wealth and risk their capital in the development of businesses, and that they cannot expect government policy always to favour them.

Bankers support a push – now also adopted as government policy – to create a one-stop Securities Commission, replacing the two committees and the Registry of Companies.

They believe that as well as removing several levels of bureaucracy, a commission would take a positive role in developing Malaysia's capital markets.

It would also assume powers of surveillance and the ability to prosecute for malpractice in the markets.

The desire for a powerful, independent-minded regulatory body has been spurred by long-standing swirling rumours of insider trading.

The government has promised full investigations, but there have been few charges so far.

Also casting a shadow over the corporate sector as a whole – especially since the economy is becoming more developed – is the traditional close involvement of political parties in ownership of companies. Election campaigns are expensive in Malaysia and parties need strong finances.

The United Malays National Organisation (Umno), the dominant party, previously openly controlled large companies.

A study of these links by Mr Edmund Terence Gomez* of the University of Malaya argues that political links with business have produced favouritism through government patronage – especially in privatisation – and conflicts of interest, and have probably encouraged corruption.

Government-owned agencies have been abused for the benefit of Umno's business interests, he says.

Most significantly, Mr Gomez says, "Umno's involvement in business has not really contributed to productive businesses under its control. Rather, the party has been primarily involved in capturing 'paper wealth' and transferring such wealth from one source to another to obtain quick profits."

Last year, many of those widely seen as "Umno companies" were regrouped into Renong, which was transformed through complex transactions into a conglomerate.

Dr Mahathir insists that Umno owns no companies, although he says that companies may be run by people sympathetic to Umno.

**Politics in Business: UMNO's Corporate Investments*, Forum, Kuala Lumpur, 1990. Also by Mr Gomez, *Money Politics in the Barisan Nasional*, Forum, 1991.

■PROFILE: Renong

Transformed overnight

"IT'S a mixed bag without a core identity" is the cautious comment of one senior Malaysian merchant banker. Another ventures: "It's difficult to understand the structure. What is the core business?"

Yet the company of which they are unwilling to speak, Renong, is one of the largest conglomerates listed on the Kuala Lumpur Stock Exchange, with interests stretching into many areas of Malaysian life. It controls, among other things, the biggest construction project in the country; the New Straits Times publishing company; a television channel; large property, hotel and travel agency interests; and substantial banking and insurance businesses.

The reason for the caution – which extends also to reluctance among stockbrokers to publish research on the company – is Renong's "political" nature. It has become the holding company of many companies seen for several years as operating under the aegis of the United Malays National Organisation (Umno), the dominant political party.

Renong's chairman since last year – and a substantial minority shareholder – is Mr Halim Saad, 37, a businessman with strong political connections. He is seen particularly as an associate of Mr Daim Zainuddin, former finance minister and still treasurer of Umno. Mr Halim Saad's wife is also a member of the five-strong board.

Renong was a small, loss-making property company

Until last year, Renong was a small, loss-making property company. But by a rapid series of takeover deals it was transformed virtually overnight into a massive, profitable conglomerate. Its structure was reformed again through another series of deals this year.

Last year's transactions necessitated a 238-page prospectus, and this year's a further 98 pages. What it calls its stable now includes more than 100 operating companies, including nine with stock exchange listings. It has only 27 staff, according to the second prospectus.

Merchant bankers see its transformation as the biggest example of the paper-shuffling nature of many stock market deals. One foreign stockbroker with long experience of Malaysia says of this trend: "We view these companies with a great deal of suspicion. They are a terror to analyse. Defunct companies change overnight. Stock prices are pumped up and then deflated. A lot of transactions are paper transactions when assets are suddenly pumped into companies. Investors' belief is suspended."

What is in Renong's stable? By far its most significant holding is a 39 per cent stake in United Engineers (Malaysia), which had been financially troubled but in 1988 won the contract to build the M$6bn North-South Expressway. It is expected to win the contract for the next large project, the second crossing to Singapore.

UEM owns half of, and Renong has an indirect stake in the other half of, Projek Lebuhraya Utara-Selatan (Plus), a specially-established subsidiary which is designing, building, operating and maintaining the highway and has the right to collect tolls.

As an example of the rapid changes in ownership within the group, Renong itself last year acquired a 50 per cent holding, via investment holding companies, in Plus. At the same time, it acquired a 2 per cent direct interest in UEM, and a 30.5 per cent interest in UEM via associates.

After this year's transactions, Renong had a 32.5 per cent stake (since increased) in UEM in order to benefit more directly from UEM's profits; Renong also sold its 50 per cent stake in Plus to Faber, another financial troubled group with large interests in property and hotels, which it simultaneously gained control of. Faber thus has a share of the tolls, and Renong has an extraordinary gain of M$630m.

Project management has been contracted to another UEM subsidiary, Kinta Kellas, and UEM also controls Cement Industries of Malaysia as well as other engineering, equipment and supplier companies involved in the highway project. Another Renong associate, has the contract to lay fibre optic cables along the highway.

Renong has forecast pre-tax profits of M$175m to $185m for the year ending June 1992, compared with an estimated M$75m to M$80m for the year ended June 1991, negligible profits in the previous year and losses for several years before that.

Although Renong is strongly placed for profits growth, the investment community will be seeking evidence of effective management, a simpler structure without more asset-shuffling transactions, and reliable track records for companies in the group, before relaxing its wary approach.

Because of the strong political orientation of the group – winning government contracts and operating press and media friendly to the government – investors would also need to be sure that political developments would not upset its progress.

Alexander Nicoll

Mahathir's target: a developed country by 2020

Dr Mahathir Mohamad, Malaysia's prime minister for the past 10 years, answers questions in an interview with Alexander Nicoll

FOREIGN AFFAIRS

Q: What is your view of Apec (Asia Pacific Economic Co-operation, a recently-formed grouping involving East Asian and North American countries as well as Australia and New Zealand)?

PM: Apec is an association of countries of the Pacific Rim – not all, some – which is formed in order to help them to interact with each other – maybe have a programme that will help some of the less progressive of the Apec countries. Apec is not meant to be a grouping that will negotiate international trade with other groupings. It is merely a grouping that will work with each other in order to promote better co-operation and help especially the less developed countries with expertise, with training programmes, etc. So that is the function of Apec which is confined to the members. It does not interact with other groups.

Q: Does that mean that it does not exclude the possibility of other groups from being formed?

PM: No, obviously it does not because in the Apec group there is already the Asean (Association of South East Asian Nations) group, then there is Nafta – North American free trade agreement between Canada and the USA and, of course, eventually with Mexico, maybe even other countries. So it is quite possible for the members of Apec to belong to other groupings.

Q: And you consider that other groupings in this region are necessary?

PM: Yes. These other groupings have got different functions. So, each can carry on with the function that is specified, specific for that grouping.

Q: Are you happy with the progress of your proposal (for an EAEG: East Asian Economic Grouping) and the proposal for an Asean free trade area?

PM: Well, some day it (the free trade area) has to come about. I suppose for the Asean. That's confined to the six countries, members of the Asean group. A free trade area is not going to come along very soon because there are many problems faced by us including the fact that we are competing economies. We produce practically the same things and for that very reason our trade is orientated outwards rather than inwards.

Trade between Asean countries is very small. We like to increase it but there is a limit. Obviously Malaysia cannot sell rubber to Indonesia or Thailand, because they are producing rubber and they are selling their rubber outside of Asean. But there may be some items that we can complement the other, then we can do trade there.

Q: What about EAEG?

PM: The EAEG is not a trade bloc. It is merely a forum which will bring countries of East Asia together. The reason why it's confined to East Asia is because there are already similar groupings, the EC for example and America itself, even without Canada.

Normally in international negotiations on trade, whether we like it or not, the concentration is on the conflict between EC and America. Small countries attending this Gatt meeting receive scant attention simply because we are not big enough. In order to draw attention to our problems, it is necessary that we have a bigger grouping. Not a trade group or anything like that, but just a forum. And if we have a forum, before any international negotiation we can meet and formulate common approaches.

Now that is not such a rare thing. For example the Cairns Group, in which the US is also a participant, but it is confined to agricultural products and they put up a common front. So I don't see why we cannot form a group that is geographically defined and yet have certain similarities. Certainly this geographical definition would not include countries which already have a geographical grouping of their own.

Q: And not countries on the other side of the Pacific?

PM: Yes, Canada, America.

Q: Are you happy with the progress that your proposal has made so far? It seems quite a lot of people have some reservations about it.

PM: Yes. The reservation really is because there is a distinct fear that this is not liked by the US. That is the one single factor that is holding it back. I think if the US were to say Yes, everybody will come together.

Q: And what do you think are the chances of the US saying Yes?

PM: We have tried our best to explain. We have explained that it is Gatt compatible and it is not a trade bloc, it is not even anywhere near the Nafta concept, or the EC concept. So I frankly do not know what else we can explain as to the innocuousness of the EAEG.

Q: What is your opinion of Japan's proposal that security issues be discussed at the Post-Ministerial Conferences (an annual meeting between Asean foreign ministers and their counterparts from big trade partners – US, EC, Japan, Canada, South Korea, Australia and New Zealand)?

PM: We feel that while we can discuss security matters in the PMC, it should not be an exclusive forum for security. It can be one of the subjects that we will discuss. If the PMC is used exclusively for security matters then it would look as if it is a sort of alliance, and that is what we are trying to avoid.

Q: As long as it is not exclusive, you are not against it?

PM: We are not against it.

Q: Do you think that is in fact what will happen?

PM: I think so. It is quite impossible to make the PMC an exclusive grouping simply because there's China and Russia knocking on the door. One day they will be dialogue partners, then the PMC will include them. If we are going to say, that with them, we cannot discuss security, we are assuming that they are going to be the enemy. And we would not like to define anyone as the enemy.

SOCIAL AND ECONOMIC POLICY

Q: What are the main differences between the National Development Policy (NDP) and the New Economy Policy (NEP)?

PM: There is not very much difference. The reason for that is because we, after making a thorough assesment, feel that the NEP was a good policy and it has achieved its objectives, not fully, but it has done so in the context of stability and economic growth.

We feel we have a winning formula and we don't think we should go off the track too much. The only thing we are saying is that instead of determining the target within a certain period of time, we say that we will give ourselves any amount of time because we are looking now for quality rather than quantity.

In the NEP we specify that we should have 30 per cent for the Bumiputra, 40 per cent for the Chinese and 30 per cent for the foreigners. Thirty per cent for the Bumiputra would become meaningless if they had no skills to manage their wealth. It will fritter away, it will go back to the others and we have seen this happening in fact.

We take a lot of trouble to allocate to them (Bumiputra); shares and all that. They buy the shares and when the shares appreciate they sell off the shares and they are not in possession of the amount of corporate wealth they should be having. So our focus now is on skill development, skill to manage wealth among the Bumiputras.

Q: How do you think that can be achieved?

PM: A lot of exposure, more training, more selective allocation. We go back to their track records, performances and arrange increasing training facilities for that.

Q: Management school, basically?

PM: Management school. As a matter of fact we have founded a university totally devoted to management because we feel that management is one of the most important skills that the Bumiputras, or for that matter Malaysians should have. The university is not meant for Bumiputras alone. It is open to everyone.

Q: I was quite struck by some of the language you used in the speech (introducing the National Development Policy) that Bumiputra cannot expect economic policies always to favour them, that their influence in the government may diminish and the government may no longer be willing to formulate policies to help them. They are quite strong words are they not?

PM: They are and we believe in what we say. We feel that no group should depend upon political patronage. It is not a durable thing. But if we have the skill to manage our wealth, it doesn't matter who is in charge, they are going to succeed. That is why the stress is more on their skills, to manage rather than political patronage.

POLITICS AND BUSINESS

Q: There is close linkage between political affairs and business affairs, and a degree of patronage. Do you not feel this is a dangerous impression to give?

PM: No. When we say patronage, we mean definite policy in favour of the Bumiputras as included in the NEP and the NDP. This is what I mean by patronage.

Patronage does not mean that you give special consideration to your friends. But obviously you have to favour Bumiputeras in order to give them a chance. There is no way they can compete against people who are much more skilful than themselves. So to that extent we have to give patronage. Obviously if they have a government that is unfriendly to them, they are not going to get that kind of help.

The other thing is that we are friendly with all businessmen. You may notice that the government, I myself, have been accused of helping friends. But there is not a single businessman in this country that I cannot call my friend, because I help everybody; because we feel that the job of government is to help the private sector succeed. Because when they succeed then we can collect taxes from them. If they fail, this country cannot develop.

We believe in the free market system; in private enterprise. And government must help private enterprise. Whether they are Chinese, Malays or Indians, it doesn't really matter.

Q: Nevertheless there seems to be a bit of a cloud hanging over things. There are allegations over insider trading. Last week a minister announced that people were to be charged the next day on insider trading. But then nothing more was heard.

PM: No, it just shows that the government will take action. It is the government which reveals all these things and we will take action against anybody who does anything that is wrong.

A minister may make an announcement that the next day somebody is going to be arrested. But it is not the minister who decides on the arrest. It is the people who are conducting the case. They will have to have the right evidence and reason for taking action. On that we have no control.

But as far as we are concerned, something wrong has happened and it is up to the authorities to take action. If we were to direct how it should be done, then that will be interference with the process of law.

Q: Are you completely unconcerned then about any link between Umno (the ruling party, United Malays National Organisation) and business?

PM: We have no links with companies. But there may be people who are sympathetic to Umno who are running companies. That we cannot help. There are companies which are sympathetic to the opposition. We do not accuse them (the opposition) of running companies. We are quite definite that we have no business involvement as a party.

THE ECONOMY

Q: The government has been very successful in attracting foreign investment. How concerned are you about the degree of technology transfer and skill transfer?

PM: We are concerned but we are also realistic about these things. Technology transfer can take place if there are recipients capable of receiving the technology. And we don't have that many people who are trained to learn and utilise that technology. So we are going to be patient about it.

We have learnt quite a lot of things definitely since there has been a lot of foreign investments. But if we cannot absorb all the technology now, we will absorb them later.

Technology transfer: 'We don't have that many people who are trained... So we are going to be patient about it'

Q: What is the overall state of Malaysian industry at the moment?

PM: I think we are doing very well. Obviously economic growth is high, much higher than most developing countries. There is every evidence of prosperity in the country. There is a greater degree of consumption and people are making more money. So everything points towards a very good record of economic growth.

Q: Are you not concerned of the possibility of some overheating in the economy?

PM: We monitor these things very carefully and we hope to be able to anticipate any tendency towards high inflation, too much imports etc. For example, if we notice that imports of goods go up too high we will immediately increase the tax. We have a lot of weapons in our armoury so to speak and we monitor things very, very closely. Inflation in this country as you know is very low. It does not just happen. We have to constantly see that it does not go up too fast.

VISION 2020

Q: Can you explain Vision 2020; what it is and its purpose?

PM: What we say is that by the year 2020 we should be a developed country.

The natural thing for people to assume is that we should have a per capita income that is the same as other developed countries. We are not looking at per capita income alone. We are thinking of the quality of life. We want to retain our culture. We want to retain our family system, we want to retain the values we have. We don't want to be too hedonistic and forget our roots.

So in order to ensure that the worst aspects of development does not displace our values, we will have to educate the people as to what we mean by a developed country. It is quite meaningless to have a per capita income that is 10 times what we have now. It can be 20 thousand dollars per head but at the same time the cost of living goes up ten times.

As you know M$2.70 Malaysian ringgit is equivalent to US$1.00. But in terms of purchasing power they are actually the same. With that Malaysian ringgit, you can buy as much food in Malaysia as you can buy (with a dollar) in the US. So for us this low rate of inflation, this low cost of living is very important. So all these things are to be taken into consideration.

Q: How are you bringing Vision 2020 into effect?

PM: Firstly, our people must be capable of making the adjustments from an agricultural society to an industrial society. And they then need to be retrained to be able to handle industries at all levels, so that they can help increase productivity which is the most important thing. And if we can always contribute towards greater productivity of this nation, we are going to grow economically.

We will have to have a political system that is stable, that will convince investors, both domestic and foreign, that when they put money in Malaysia they will not lose it, they gain by it.

We want to ensure that the education system changes in keeping with the changes taking place in a gradually industrialising society. For example now, we have a subject called Living Skills, a society that is oriented towards industry rather than agriculture. So a lot of things have got to be done. People as a whole must understand what is meant by developed society. So we are going around informing people that this is what will happen. It is not something that will just happen. They will have to make adjustments, the best they can. We will have to help them.

Q: Is it necessary to have a big increase in Malaysia's population?

PM: Whether we like it or not there is going to be a big increase in Malaysia's population. As you know our policy is to have 70 million people by the year 2100. That is government policy.

Unfortunately the present rate of growth will mean that by the year 2050, 50 years early, we would have achieved 70 million. At present we are increasing at the rate of 360,000 a year; 1 million every three years. And that is far too fast.

But we feel that as the country becomes more industrialised, more urban people, there will be natural tendency to reduce the rate of growth. So if we increase at the present rate, by the year 2050 we would reach 70 million. But as the rate of growth tapers off, the numbers will not be that great. We are not suddenly going to have 70 million people. It will be gradual.

ROLE OF GOVERNMENT

Q: Do you think Malaysia still needs a strong government to lead it into the developed world? Is there a cost to that?

PM: Yes. For some people there may be something that they call a cost to this. But if they really add up and look at the bottom line, actually it is good investment for them because in the end they are going to gain. We are not going to gain anything by having weak governments as in some countries which get toppled over every now and then, and then you have elections during which hundreds, thousands of people are killed, the economy disrupted, people are poor, and starving.

That kind of thing will happen if we have weak governments. A strong government can ensure stability, provided of course the strong government is conscientious and dedicates itself to doing the right things. Strong governments which are oppressive are not what we are after. But that will not happen because there will be elections and people will have the chance to replace the government that has lost interest in the people.

So far, this country appears to appreciate strong governments. I still think that at our stage of development we need strong government. There may come a time when we are fully developed in which case governments are actually superfluous as in some society. At that stage maybe we can have a weak government, but not now.

Q: One of the costs would be that there will not be a great deal of criticism. For example, the newspapers do not contain much criticism of the government.

PM: Which newspaper in Malaysia do you read?

Q: Well, I have read several. The New Straits Times, Business Times, Star, they are all clearly in favour of the government.

PM: You have not read Harakah, Watan, Rocket, several Chinese newspapers, several Tamil newspapers and also a number of Malay mosquito newspapers which have never written anything good about the government. They are full of scandals.

But then most foreigners will read only the Straits Times, at the most the Star. And like all countries there are newspapers which favour the government, there are newspapers which are against the government. The same thing in Britain, I think you have Conservative papers, you have Labour papers. The fact that the Conservative government is in power and there are Conservative papers does not mean that there is no freedom to say things against the government. It is the same here.

I can assure you. We can give you translations of some of these papers and they say a lot of nasty things about the Government. They still publish. There is freedom of speech in this country. If you listen to some of the speeches of the opposition in the current by-election, you will know the kind of things they say. And in Parliament, they are using parliamentary immunity. They said that we are involved in 10 separate scandals and when we challenge them, you go outside and say it, they kept quiet. So there is freedom of speech in this country. Whatever other people might say, we insist that there is freedom for the people to support the government, for the press to support the government.

Q: After 10 years in office, what would you say is your greatest achievement and your greatest disappointment?

PM: It is very difficult. I see this as a continuous process. Initially, naturally people don't understand what I am doing. And my political enemies, people who want to take over the office, say all kinds of things and there are always people willing to believe them. Now their credibility is no longer there, so it would seem that I have now changed into a good man. I don't know. I haven't done anything now that I have not done before.

My disappointment perhaps is people are so gullible and refuse to see that people are saying this because of their own political ambition. I am glad to be able to prove that some of the things I set out to do are now recognised as good things, the correct things.

■PROFILE: Dr Mahathir Mohamad

Constant source of fresh initiatives

Mahathir: extraordinary resilience and determination

A TRIUMPHANT headline in *the New Straits Times* in July proclaimed: "Move into heavy industries was right, says PM".

Dr Mahathir Mohamad was speaking as the 300,000th car rolled off the Proton Saga production line – the focus of his costly push into heavy industries in the early 1980s. After large losses, that policy has long since been buried and replaced by a successful drive to attract foreign investment *in lighter manufacturing*.

But with the losses already taken and the Proton Saga now everywhere visible and a reliable national car – some are also sold abroad – Dr Mahathir could not resist claiming success for the policy "contrary to the arguments put forth by critics before."

This sort of thing may be maddening for those critics, but it is testimony to Dr Mahathir's extraordinary resilience and determination, *not at all dimmed by 10 years* at the head of the government. It also shows that he remains, despite the assurance provided by long tenure of office, very sensitive to criticism.

At 65, he has survived expulsion from his party as an "extremist" in 1969; as prime minister, the mid-1980s recession and austerity policy partly necessary because of the costs of the earlier industrial foray; huge losses and *scandal at Bank Bumiputra*; a damaging split in his own party and challenge to his leadership; the opposition stirred by detentions of politicians, suspensions of judges and bans on newspapers; political setbacks in the Eastern Malaysian states of Sarawak and Sabah; huge losses from a vain *attempt to hold* up world tin prices and the subsequent closure of the majority of the country's mines; and, in 1989, a *heart attack* resulting in urgent bypass surgery.

Dr Mahathir remains as energetic an advocate of his policies as ever.

He is a constant source of new initiatives: laying plans for the next century with his "Vision 2020", and fervently *arguing for an Asian trade* group to counter the protectionist blocs he sees in the western world.

Malaysians admire their prime minister for the higher profile he has given the country internationally, and his outspoken approach to other countries. Here too, he has gone full circle, with his "Buy British Last" campaign now replaced by much warmer relations with London.

The first prime minister not to come from an aristocratic background, Dr Mahathir began his premiership by trying to make government servants more responsible and efficient, forcing them to wear name-tags and punch time-cards when beginning and ending work. *He himself* still wears a name-tag.

Ten years later, his focus is more on maintaining what he sees as traditional values – avoiding a headlong rush to materialism – as the country becomes more developed.

He has been accused of being autocratic. Although he has taken some ruthless decisions, he defends the need for strong government to maintain stability. He has argued that democracy does not mean individual rights, but the will of the majority, and that the *individual does not have the* right to act if the majority are hurt. Believing that what is right for developed countries is not necessarily right for developing ones, he is fiercely critical of western countries which seek to link economic co-operation to a developing *country's human rights* record.

Dr Mahathir's tight hold on power springs from his shrewd management of the party machine, rewarding loyal lieutenants who have depended on him for their political careers. He is tireless, maintaining a grasp of all aspects of government in a manner reminiscent of Mrs Margaret Thatcher, the former British prime minister.

Inevitable question about the identity of his successor

Indeed, comparisons with Mrs Thatcher are easy to draw – leading to the inevitable question, being asked increasingly in Malaysia, about the identity of his successor.

Dr Mahathir appears to favour Mr Anwar Ibrahim, who became finance minister in March this year. His activities in the Islamic Youth Movement – made up mainly of urban middle-class Malays – led to his detention under the Internal Security Act during the 1970s, but he was brought into the United Malays National Organisation (Umno) and the government by Dr Mahathir in 1982 and has since been promoted repeatedly.

Mr Anwar's abilities as a senior minister, however, are regarded as still unproven. If Dr Mahathir were to depart from office for any reason in the near future it would probably be too soon for Mr Anwar.

The deputy prime minister, Mr Ghafar Baba, would be a contender, particularly if the view in Umno was that a short-term tenant of the top office was needed. Also in the wings are Mr Ahmad Badawi, the foreign minister, who fell out with Dr Mahathir in 1986 but was *later rehabilitated*, and Mr Sanusi Junid, agriculture minister.

But Dr Mahathir gives no sign that he is ready for such changes to occur just yet.

Alexander Nicoll

■FOREIGN RELATIONS

Changing priorities

MALAYSIA has assumed a new assertiveness in its conduct of foreign policy. Over the past year, it has spawned a series of initiatives, most notably *for a proposed* free-trade alliance of Asian countries.

Dr Mahathir Mohamad, prime minister, recently visited three South American countries under the aegis of the "South-South" Group of 15, an organisation which Malaysia helped to found from the non-aligned *movement* to promote trade among developing countries.

The new assertiveness reflects, in part, the personal imprint of Dr Mahathir. But it is also driven by changing priorities. For Malaysia and its neighbours, the greatest threat is no longer seen to come from communism, but from protectionism.

Malaysia has always been highly exposed to the economic *fortunes of the industrialised* world. Its vulnerability to falls in commodity prices is now coupled with its dependence on foreign investment in manufacturing industry, the driving force behind economic growth, and on export markets for the manufactured goods.

Dr Mahathir, never reticent on external relations, has directed his sights at protectionism in the west. He is suspicious of the free trade agree*ment between the US*, Canada and Mexico, and of what he calls "closed regionalism". He told foreign ministers of the Association of South East Asian Nations (Asean) at their July meeting in Kuala Lumpur: "Managed trade, bilateralism and trading based on reciprocity endanger the open multilateral trading system, and consequently the growth of world trade."

He has strongly attacked attempts by industrialised countries to link economic aid to the protection of human rights, arguing that this is interference in the affairs of developing countries, and amounts to protectionism by other means.

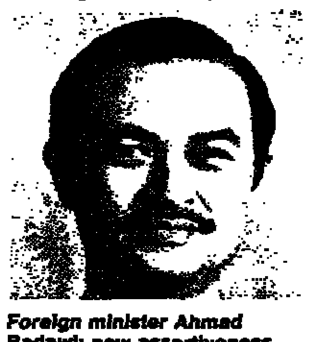
This is the rationale behind *his proposal last December* for an East Asian Economic Grouping (EAEG), involving south-east Asian countries and their northern neighbours, as a consultative group rather than a bloc. It would, he said, provide "the leverage and a platform to act in concert and speak with one voice with regard to any trade problems or trade-related issues that affect us directly or indirectly."

The suggestion, predictably viewed with disdain by industrialised nations, has more significantly found scant support among Malaysia's partners in Asean. It has helped to expose internal jealousies within Asean and confusion about its future role.

Other Asean members have shown themselves less willing than Dr Mahathir to irritate the industrialised countries upon whom they depend for investment, exports and security. They also resented the abruptness with which Malaysia sprung the idea upon them, without consultation and without a clear idea of an EAEG's role or purpose.

The proposal threw Asean off balance as it seemed to put Malaysia ahead of its neighbours in setting their future agenda at a time when they were still digesting the full implications of east-west rapprochement.

With all Asean members avowing the necessity of developing close economic ties – but each having a different idea about how this might be achieved – the task of developing a new economic and political role for Asean is among the most urgent facing Malaysia and its partners. Several quietly back the favoured route of the US and Japan: Asia Pacific Economic Co-operation, a grouping which includes North America, Australia and New Zealand but has yet to develop an identity or role.



Foreign minister Ahmad Badawi: new assertiveness

January's summit of Asean leaders in Singapore will provide an indication of the cohesion and future significance of the 24-year-old association.

This is particularly important as resolution of the crisis in Cambodia draws nearer – previously the chief item on which Asean members could agree. An end to the crisis would unlock foreign investment in Vietnam and could propel the whole of Indochina towards economic revival, which could allow it to challenge Asean members for foreign investment and export markets.

Meanwhile, however, regional disputes continue to simmer. Most notably, Malaysia and four other countries lay claim to the Spratly islands in the South China Sea, a region which is said to contain oil and gas as well as fish. As *countries move towards deeper* waters and away from the depleted continental shelves, territorial disputes would tend to loom large in the future. The Malaysian peninsular continental shelf is expected to be exhausted of known oil reserves within 10 years.

One of Malaysia's nagging disputes, however, is continuing despite a visit in July by Mr Gareth Evans, Australia's foreign minister. Australia acknowledged that offence had been caused by – but did not apologise for – an ABC television series, *Embassy*, which Malaysia took to be insulting. Officials said the acrimony had all but frozen relations between the two countries.

The decline of communism, *though not yet as evident in* Asia as in the rest of the world, has posed the question of how best to approach the region's security. The US is scaling down its military presence, and its agreement with the Philippines on closing Clark air base has raised new questions about deployment of forces.

Malaysia and its regional partners are nervous that India may want to play the role of a regional superpower, and apprehensive about Japan's more assertive diplomatic profile in regional discussions. Their position on the US view, that regional security should be taken care of by a loose framework of alliances with itself at its centre, is not clear – the concept runs parallel with economic co-operation via Apec.

Dr Mahathir's invitation to the Soviet Union and China to attend the recent Asean meetings as observers and as Malaysia's guests revealed confusion about the future means of discussing regional security. It coincided with proposals that the Asean meetings should be used as a forum to debate security issues with industrialised countries.

Meanwhile, however, the Five-Power Defence Arrangement involving Malaysia, Singapore, Britain, Australia and New Zealand, is strong as US Pacific forces are being reduced. Relations with Britain are especially warm, reflecting Britain's defence equipment sales to Malaysia, and are a far cry from Dr Mahathir's "Buy British Last" campaign in the early 1980s.

Lim Siong Hoon and Alexander Nicoll

Lim Siong Hoon examines the Cocoa Board

Focus on research

WITH M$7m in an initial government grant, the Malaysian Cocoa Board has just set *up shop in Kota Kinabalu*, capital to Sabah state, the source of half of national cocoa output.

The board is the cocoa industry's most powerful federal authority. It will attempt to regulate without impinging on the business. It will also research ways of raising farm output and of promoting industrial and consumer uses of the commodity.

"Developing agricultural countries tend to focus on production research rather than on industrial research," says Mr E.B. Tay, who as the deputy director-general must combine the roles of bureaucrat and scientist to head the cocoa board's research division.

The division aims to conduct both types of research, especially in finding new uses for cocoa, both as a food and as a non-food commodity. "This takes a long time," says Mr Tay. "But, I think the government's approach is the right one."

The board's other main function is marketing and regulatory work.

For more than a decade, domestic and international transactions in Malaysian cocoa were based on external authorities, usually African cocoa physical quality standards or, *ambiguously* it seems, on the notion of "fair, average quality".

Malaysian beans are now to be graded on a standard set of six quality levels. These will be based on bean size uniformity (100 beans per 100g is the optimum), the degrees of mouldiness, fermentation and insect infestations.

This regulatory work covers the issue licences for virtually all levels of activities, from planting (six hectares and more) and bean collection to trading and grinding. Although licensing is merely a formality, it is also an effective tool to obtain compliance in compulsory grading.

This system is necessary not simply to set tangible standards, which were not available to most buyers and sellers *before, but also to support* the marketing efforts because graded sales are now legally binding.

The measures will help build a reputation for cocoa – because Malaysia is new to the field and because Asia-Pacific countries, the target of the Malaysian promotional drive, know little of the product.

The Asia-Pacific "is a brand new market," says Mr M.J. Musa, also a deputy director-general and a scientist who heads the board's marketing and regulatory division.

To ordinary Asians, cocoa has always had the image of an expensive imported product, although cocoa costs just 10 to 12 per cent of the price of chocolate. To some businessmen, it is an African crop sought after by European or North American chocolate makers.

Swiss annual consumption is 4kg per head. The Japanese, who have equivalent income levels, each consume just 600g. But Asian consumption is rising fast: 8 per cent yearly in South Korea and Japan.

Last year, Malaysia sent a team to China, where consumption stands at 200g per head. The results have been encouraging. "They have since sent back three missions to source for raw materials," says Mr Musa who wants to persuade the Chinese to drink cocoa as much as they drink tea.

"I think it is easier to convince them to take a cocoa drink than to convince the coffee drinkers," he says.

"Now they are poor. We don't expect them to be poor forever," adds Mr Tay, who says that the board has the task of identifying different cocoa products for different markets.

The importance of the board's role in the domestic cocoa industry suggests why it exists since 1989 under a parliamentary Act. It is symbolic of the national ambition not just to be a big cocoa grower but also to be a world-class manufacturer of cocoa products.

In the decade to 1989, Malaysian cocoa bean production rose from 40,000 tonnes to 255,000 tonnes, or from 2 per cent of world total to 10 per cent. It used to export all its output, but in 1989, 20 per cent of production was sold to domestic processors producing cocoa butter and powder, the ingredients for chocolates and cocoa drinks.

Individual grinding capacities have doubled and trebled within the past two years. This year, the national capacity is expected to be about 90,000 tonnes, the equivalent of 33 per cent of the 280,000 tonnes in bean output forecast.

To this intermediate, second industrial layer of bean processors, Malaysia hopes to add a third: an array of food and industrial users of cocoa products as well as the handful of chocolate makers. Research is seen as the board's most important contribution to this field.

The board's entry into the industry is made difficult, but relevant as a result, by a world market slump, with prices at a 12-year low. Nearly all farmers are losing money, and little expansion in terms of cultivated land is expected.

Yet, Mr Tay foresees that annual output is likely to continue rising so that by 1995 Malaysia will be producing about 400,000 tonnes, more than 40 per cent above current levels.

The board has set a target of raising the national average yield – already the highest yield anywhere in the world – from 600kg a hectare to 1 tonne. Some estates already produce 1.5 to 2.0 tonnes per hectare.

KEY FACTS

Area	329,758 sq km
Population	17.8 *million* (1990 estimate)
Head of State	Sultan Azlan Shah, the Yang di-Pertuan Agong, or King
Currency	Malaysian dollar or Ringgit (M$)
Average Exchange Rate	1989 US$1 = M$2.71
	1990 US$1 = M$2.70

ECONOMY

	1989	1990
Total GDP (US$bn)	37.5	42.5
Real GDP growth (%)	8.8	10.0
GDP per capita (US$)	2,154	2,388
Components of GDP (%)		
Private Consumption	52.1	53.8
Total Investment	29.6	33.6
Government Consumption	14.0	13.3
Exports	73.8	78.3
Imports	-69.5	-79.0
Consumer prices (% change pa)	2.8	3.1
Public external debt (US$bn)	13.8	13.5
Reserves minus gold (US$bn)	7.8	9.7
M1 growth rate (% pa)	17.3	n.a.
Discount rate (% pa,year end)	4.4	6.8
FT-A Index (% change over year)	+59.0	-7.3
Current Account Balance (US$bn)	-0.2	-1.7
Exports (US$bn)	24.8	28.9
Imports (US$bn)	20.9	27.2
Trade Balance (US$bn)	3.9	1.7

Main Trading Partners (*1990, % by value*)	Exports	Imports
Singapore	23.0	14.7
USA	16.9	16.9
Japan	15.3	24.1

Source:IMF, Datastream, Economist Intelligence Unit

Alexander Nicoll examines political developments

A challenge for the future

MALAYSIA can rightly claim to have a more developed democratic system than many other Asian countries.

Although the same party, the United Malays National Organisation (Umno), has been dominant since independence from Britain in 1957, its hold on power cannot be taken for granted. And although its dominance – and the protected status of the Malay majority – means that Malaysian politics is often synonymous with Malay politics, it is by no means as simple as that.

The country's federal structure makes state politics very important. Politicians in Kuala Lumpur depend on power bases in their home states. This means that issues which are primarily local have a means of attracting attention, keeping the capital in touch with the grass roots.

Umno does not control all the states, but has managed to maintain a grip on power nationally. This achievement is due partly to the economic success of its policies, partly to the extraordinary personality of Dr Mahathir Mohamad, the prime minister, and partly due to effective constraints on the dissemination of dissenting opinions.

Umno must constantly seek a balance between the different interests which keep it in power.

On the one hand, it is completely dependent on retaining the support of Malays, who make up about half the 18m population. Its traditional backing is among rural Malays, agricultural families who were formerly the backbone of the economy. With the growth of industry, Malays have been actively encouraged to move to urban areas to seek employment. This has created a new set of concerns which Umno needs to address to retain support.

A long and wounding struggle which developed within Umno in the late 1980s resulted in Tengku Razaleigh Hamzah, the former trade and industry minister, leading the breakaway party Semangat '46 (Spirit of 1946). This is a reminder of competing claims for support among Malays. So is the existence of the Parti Islam (PAS), the Islamic party which has long been a constant threat to its backing from rural Malays.

While retaining sufficient support among Malays, the party must also constantly bargain behind the scenes with its partners in the Barisan Nasional (National Front) coalition government. These are the Malaysian Chinese Association, the Malaysian Indian Congress and various parties with which it is allied in the eastern states of Sarawak and Sabah.

This is an awkward balance when the driving force behind most of government policies is the advancement of Malays. The coalition partners need the support of the Umno machine to persuade Chinese and Indian voters that the coalition remains worthy of support.

PARLIAMENTARY BALANCE

Barisan Nasional coalition: 132 seats:
Umno 73
MCA 18
MIC 6
Gerakan 4
Sarawak parties 25
Sabah parties 6

Opposition: 48 seats:
DAP 20
Parti Bersatu Sabah 14
Parti Islam 7
Semangat '46 7

As Gordon P. Means, professor of political science at McMaster University, Hamilton, Canada, observed in a recent book*: "When the ethnic preference system blocks access to higher education and to valued jobs for those who otherwise would be qualified, considerations of inter-ethnic equity assume minor significance to the deprived individual suffering immediate anguish and despair."

In general, the minorities have been restrained from opposing the government by the country's prosperity and by their continued preponderance in business and the professions. While Malays still account for 76 per cent of agricultural workers, 56 per cent of registered professionals are Chinese and 13 per cent are Indians. Within the professions, 81 per cent of accountants, 74 per cent of architects and 58 per cent of engineers are Chinese. The Chinese still dominate retail trade.

However, Prof Means observes: "Most non-Malays live with a persistent anxiety over the direction of ethnic preferences policies and wonder whether they or their children will ever be treated with full equality in public policy, in access to goods and services, and in economic and social relations."

The leading opposition party, the Democratic Action Party – though it does not identify itself with any racial community – does best in areas with a large Chinese population, such as Kuala Lumpur and the surrounding area, and Penang.

For Umno, there is an equally dangerous reverse side to the political implications of its asset redistribution policies. The National Economic policy, effectively spreading wealth among Malays as of right, has naturally raised expectations among Malays. If these cease to be met, Umno could rapidly find itself in difficulties.

Dr Mahathir, in characteristically direct fashion, expresses frustration with the tendency of Malays to view the National Development Policy, successor to the New Economic Policy, as a "get-rich-quick scheme", rarely risking their easily-won capital. He warns them that they cannot expect policy always to favour them.

In all this – despite the evident success of many government policies – there should be fertile ground for opposition parties.

In parliament, opposition parties account for 48 of the 180 seats. Mr Lim Kit Siang, the opposition leader, also heads the Democratic Action Party which has 20 seats. The next largest bloc is of 14 seats held by Parti Bersatu Sabah, with the remainder split between Semangat '46 and Parti Islam.

Although the opposition is not large enough to block legislation, its substantial presence in parliament does allow opposing views to be aired publicly and thus to get into the press, most of which is favourable to the government. Even so, opposition MPs do not get the hearing they would like. Mr Kua Kia Soong, MP for Petaling Jaya on the outskirts of the capital, complains: "The Deputy Speaker has a stiff neck – he can't see the opposition MPs."

The DAP's constant call is for open, clean, accountable government. Its latest target is a Land Act, recently amended by Parliament to allow state governments compulsorily to acquire land for any purpose "deemed beneficial to the economic development of Malaysia."

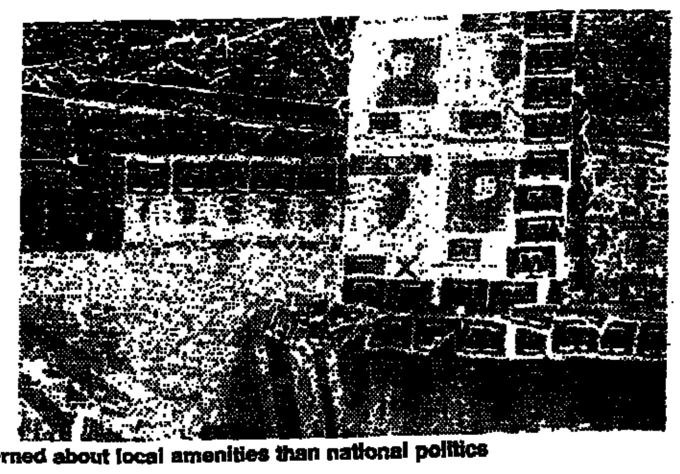
But the ability of any opposition party to make headway in an election is severely constrained. To begin with, the press and broadcast media, either controlled by or favourable to the government, give little coverage to opposition views. Secondly, opposition parties cannot begin to match the financial resources upon which Umno can draw. This becomes particularly important at election time when promises to improve facilities, especially for poor communities, are commonplace. Thirdly, there are strict limits on election meetings, which can only be held in enclosed spaces and therefore must be small. Police permits are needed to hold them.

Always at the back of the opposition's mind – and of those who vote for them – are periodic government crackdowns. The opposition leader and his son, as well as other politicians, have suffered detentions without trial.

Dr Mahathir insists that strong government is necessary for a developing country such as Malaysia. "We are not going to gain anything by having weak governments as in some countries which get toppled over every now and then, and then you have elections during which hundreds, thousands of people are killed, the economy disrupted, people are poor, and starving."

The challenge for Malaysia's leaders in the future, however, will be to have the confidence to allow more air to flow through its democracy while retaining racial harmony and prosperity.

* *Malaysian Politics: The Second Generation. Oxford University Press, 1991*



Billboards and slogans everywhere: most voters are more concerned about local amenities than national politics

Politics among the squatter huts

Federal funds win votes

"ON MONDAY we will have the street lights on," proclaims the speaker to a gathering of Indians and Malays.

Because there is not a lamppost in sight, and since this election meeting is taking place in the middle of a community of squatter huts – in which women painstakingly sort bales of shredded paper into different colours for resale back to the paper mill – the promise seems unlikely to be fulfilled.

But this is a by-election for a state assembly seat, and the concerns of the voters are predominantly local.

The constituency is Prai, an area of light industry and commerce centred around Butterworth, on the west coast of Peninsular Malaysia a short ferry ride from Georgetown, the bustling main city of the island of Penang.

Just over half its 14,000 voters are Chinese, with more than 25 per cent accounted for by the Indian community and only 22 per cent by Malays. Although Prai contains some better-off sections, it also has some poverty-stricken areas with little drainage and poor housing and roads.

In last October's general election, the opposition Democratic Action Party just managed to hang on to the seat as the DAP strove to capture a majority in the Penang state assembly.

The DAP depends largely on Chinese and Indian votes and could therefore hope to do well in Penang. But it narrowly failed to win the state and was forced to fight the Prai seat again when its assemblyman resigned for personal reasons.

The state leaders of the Barisan Nasional, the ruling National Front coalition of parties, wishing to shore up their small majority and to win the confidence of the party bosses in Kuala Lumpur, have thrown everything into winning the by-election.

Their candidate is Mr V. Muthusamy, a lawyer and the husband of the unsuccessful candidate last October. The seat is traditionally held by an Indian and Mr and Mrs Muthusamy are prominent members of the Malaysian Indian Congress, one of the three main ethnic-based parties which make up the coalition headed by Dr Mahathir Mohamad, the prime minister.

The DAP's determination to retain the seat is shown by its selection as candidate of Mr Karpal Singh, its deputy chairman, an MP in Kuala Lumpur and one of Malaysia's most distinguished lawyers. On a campaigning Saturday in late July, several government ministers are in the constituency on Mr Muthusamy's behalf, including Mr Anwar Ibrahim, the finance minister, whose home state is Penang. The prime minister is opening a factory for Sony, the Japanese electronics giant, nearby.

Mr Karpal Singh is surrounded by several of the DAP's most senior national officials. Mr Lim Kit Siang, leader of the opposition in Kuala Lumpur, and Tengku Razaleigh Hamzah, the former finance minister who leads a breakaway party of Malay former supporters of Dr Mahathir, are addressing campaign meetings.

The pennants, billboards and slogans are everywhere: white scales on a blue background for the Barisan Nasional: a red rocket through a blue circle for the DAP.

With most voters more concerned about local amenities than national politics, the Barisan slogan "Only Barisan can help" is given a literal interpretation by its campaigners.

At the Barisan campaign headquarters, Mrs Muthusamy is passionate in support of her husband, whose campaign she is managing. "We say, this is a working class area with squatter areas and no amenities and drainage. We are concerned with day-to-day affairs. We need somebody to voice the problems of the community."

This commitment is viewed with cynicism at the DAP headquarters. Mr Karpal Singh, the DAP candidate, says: "The Barisan Nasional only thinks about paving the roads during an election. These are direct inducements but the government says that the timing is a coincidence."

"We're fighting the money, the machinery and the media," says Mr P. Patto, deputy secretary-general of the DAP.

Improvements to amenities are taken for granted in Malaysia as vote-winning tactics. So much so that the Star newspaper, which supports the government, reported next day from Prai without comment:

"On-the-spot grants have been made to national-type primary schools and local organisations, and for the construction of village roads with promises of more federal funds to improve poor drainage and overcome the nagging flood problems in the slums." Hence the DAP slogan: "Take Barisan money, vote DAP". Mr Patto says: "A DAP win shows that the people want a clean, accountable government."

At the election meeting amid the squatter huts – where a DAP meeting had been disrupted the previous evening by people throwing stones – Mr S. Samy Vellu, minister for energy, telecommunications and posts, couples his promise of street lights with an appeal to the wider concerns of Malaysians.

"When you vote, you are voting not for Mr Muthusamy, not for Mr Samy Vellu, you are voting for the scales, that is for Dr Mahathir." (The scales, indicating justice, are the Barisan emblem.)

But at campaign headquarters, Mrs Muthusamy has to think for a few moments when asked what Dr Mahathir's government has done for the country as a whole. The prime minister deserves credit, she says, for focusing on the country's long-term future and international standing.

She is incensed, meanwhile, that a driver working on road improvements had been telling local residents that the work was ordered by the DAP. This, she says, is a dirty trick typical of the DAP.

Mr Patto of the DAP takes a wry view of such outrage: "No by-election, no DAP, no repair," he says.

Footnote: Mr Muthusamy, the candidate of the ruling Barisan Nasional, won the seat with 5,182 votes against 4,320 for Mr Karpal Singh, the DAP candidate.

Alexander Nicoll